March 29, 2012

Indian Innerwear Sector

Along the consumption bandwagon!

The Indian apparel sector is expected to grow from ₹ 1,709 billion in 2010 to ₹ 4,700 billion by 2020E, representing a CAGR of 10.6%. Of this, the innerwear market currently valued at ~ ₹ 14,300 crore (in 2011) is expected to grow to ₹ 43,700 crore by 2020E, growing at a CAGR of 13.2%, outpacing the growth of the overall apparel market. Also, the women's segment that has historically been smaller in size compared to the men's segment is expected to grow at a faster pace (CAGR of 15% over 2010-2020E as compared to 10% CAGR in the men's segment). The women's innerwear segment is likely to touch ₹ 30,000 crore from the current ₹ 8,500 crore. On the other hand, the men's innerwear segment is likely to grow from ₹ 5,800 crore in 2010 to ₹ 13,700 crore in 2020E. Improving Indian demographics and increased preference for proper fits, sizes, etc. lend credence to the growth of organised players in the Indian innerwear market. Organised players (including Page Industries, Lovable Lingerie and Rupa & Company, among listed players) are well poised to capture this growth. We are initiating coverage on the Indian innerwear space with a BUY rating on Page Industries. Based on the current valuations, we believe that the upside potential in Lovable Lingerie is limited and, hence, have a HOLD rating on the same.

Shift from unorganised to organised segment to aid overall growth

The Indian apparel market has been witnessing a shift towards the organised segment. The share of the organised segment in the overall pie has increased from 13% in 2005 to 16% in 2010 and the same is expected to go up to 40% in 2020E. The organised apparel market is expected to grow at a CAGR of 21.3% during 2010-2020E (faster than the overall apparel industry, which is slated to grow at 10.6%). This augurs well for organised players.

Higher share of premium products to aid margin expansion

The premium and super-premium category in both the men's and women's segment has witnessed a higher growth than other segments. With increasing disposable incomes and customers' willingness to shell out more for better quality products, domestic innerwear manufacturers are working towards increasing the share of premium products in their product portfolio. On the back of this, we expect a margin expansion in the range of 50–250 bps (across our innerwear coverage universe) by FY14E.

Sector multiple lower than that of consumption stocks

We believe the stocks in the innerwear segment like Page Industries, Lovable Lingerie and Rupa & Company are similar to consumption sector stocks like Marico, Dabur, Titan Industries, Asian Paints and Jubilant Foods. The performance of these (consumption) companies is also driven by brand preferences, rising disposable incomes, etc. The innerwear segment stocks are trading at a multiple of 22-25x one year forward earnings. We believe this sector deserves to trade at such multiples considering the superior return ratios, healthy free cash flow generation, consistent growth and healthy dividend payout. Our comparison with stocks in the consumption space reveals that the stocks in the Indian innerwear space are still trading substantially lower than the average P/E of 29.6x (FY13E EPS) for all consumption stocks taken together.

Rating Matrix

Company	CMP (₹)	TP (₹)	Upside (%)	Rating
Page Industries	2,688	3,106	16	Buy
Lovable Lingerie	351	350	(0)	Hold
Rupa & Company	141	-	-	Unrated

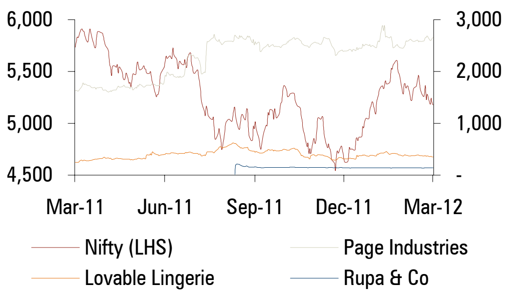
Stock Data

Page Industries	
Average volume	5,590
Market Capitalisation (₹ crore)	2,998
52 week H/L (₹)	3,044 / 1,590
Promoter holding (%)	59.7
Institutional holding (%)	34.3
Lovable Lingerie	
Average volume	712,214
Market Capitalisation(₹ crore)	590
52 week H/L (₹)	637 / 242
Promoter holding (%)	67.0
Institutional holding (%)	14.3
Rupa & Company	
Average volume	1,933
Market Capitalisation (₹ crore)	1,119
52 week H/L (₹)	170 / 116
Promoter holding (%)	74.9
Institutional holding (%)	0.0

Comparative return matrix

Returns (%)	1m	3m	6m	12m
Page Industries	6.9	10.3	4.7	67.2
Lovable Lingerie	(9.3)	11.3	(24.6)	38.8
Rupa & Company	-	(2.0)	(7.7)	NA

Price movement



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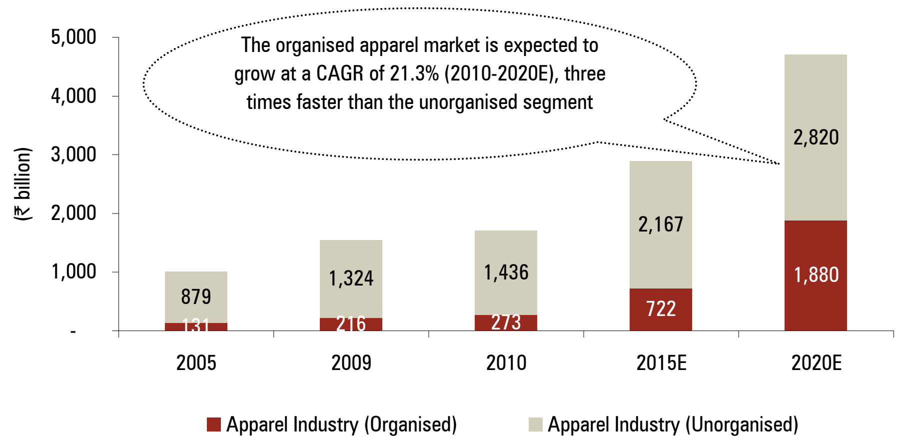
Indian apparel industry

Indian apparel market to grow at a CAGR of 10.6% to ₹ 4,700 bn by 2020E

The Indian apparel industry is slated to grow at a CAGR of 10.6% during 2010-2020E. The organised apparel segment is expected to grow at a CAGR of 21.3% during the same period as rapid growth and rising urbanisation have spawned a new class of consumers with more money to spend, and a growing passion for fashion

Exhibit 1: India's growing apparel market

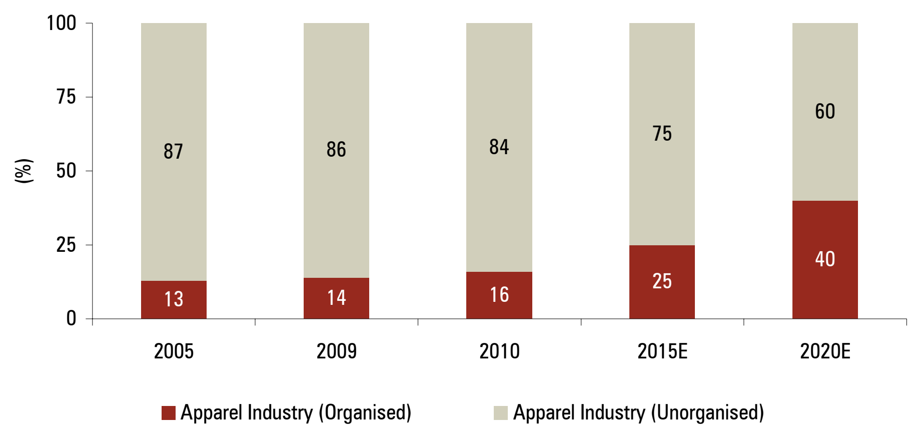


Source: Images F&R Research, ICICIdirect.com Research

In India, apparel is the second largest retail category (behind food and groceries), representing approximately 10% of the total market. Indian apparel sales are expected to reach an estimated ₹ 4,700 billion by 2020E on the back of faster growth in the organised apparel segment. Having grown in excess of 11% over 2005-2010, Images F&R Research expects the Indian apparel industry to grow at a CAGR of 10.6% during 2010-2020E. While the rate of growth has slowed down marginally, the organised apparel segment is expected to grow at a CAGR of 21.3% during the same period, at 3x the growth of the unorganised segment.

According to Images F&R Research, the organised apparel market is expected to grow to ₹ 1,880.0 billion while the unorganised segment is expected to grow to ₹ 2,820.0 billion during 2010-2020E

Exhibit 2: Organised apparel segment's increasing share

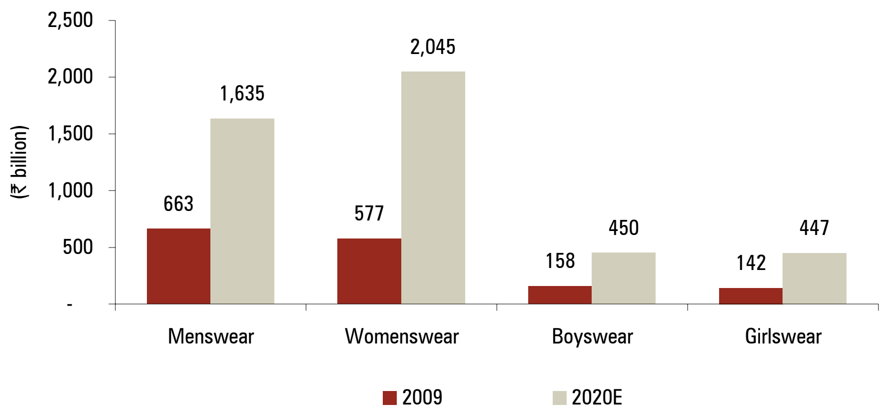


Source: Images F&R Research, ICICIdirect.com Research

With increasing awareness, consumers are becoming highly brand conscious and also exhibiting higher brand loyalty. As visible in Exhibit 2 above, the share of the organised apparel segment is growing. Images F&R Research expects the organised apparel market to increase from ₹ 273.4 billion to ₹ 1,880.0 billion, representing a CAGR of 21.3% during 2010-2020E. On the other hand, the unorganised segment is expected to grow by a meagre 7.0% to ₹ 2,820.0 billion during the same period.

With an increasing number of working women and increasing awareness the women's wear segment is expected to post fastest growth during 2009-2020E

Exhibit 3: Indian apparel market: higher growth in women's category expected

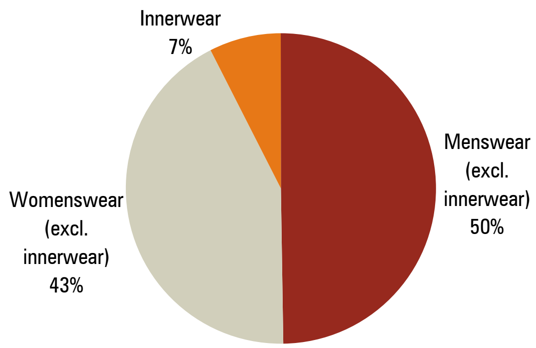


Source: Images F&R Research, ICICIdirect.com Research

Historically, the men's apparel market in India has been significantly larger than the women's apparel market. With a lower share of women in the workforce (mainly urban), women's wardrobes have traditionally been limited to home wear and items for special occasions. Now, women are more willing to dress differently when they venture beyond the home — to shops, or visit a school or office. On the back of this, Images F&R Research expects the women's wear segment to post the highest growth during 2009-2020E. While the men's wear and boys-wear segment is expected to grow at a CAGR of 8.5% and 10.0%, respectively, the women's wear and girls-wear segment is expected to grow by 12.2% and 11.0%, respectively.

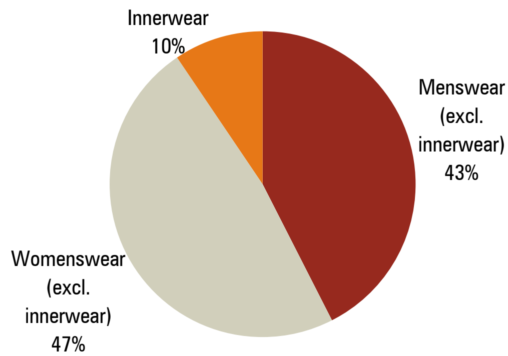
Emerging innerwear market

Exhibit 4: Indian apparel market (2010)



Source: Images F&R Research, ICICIdirect.com Research

Exhibit 5: Indian apparel market (2020E)

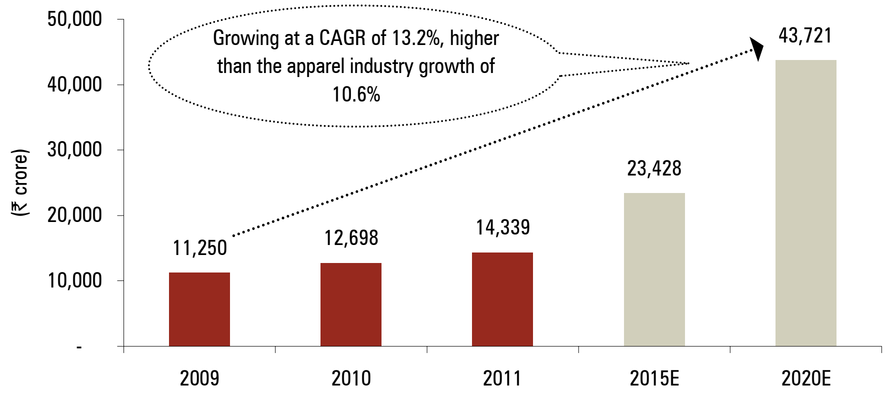


Source: Images F&R Research, ICICIdirect.com Research

The Indian innerwear market is still at a very nascent stage and has significant growth potential. Images F&R Research expects the share of the innerwear segment to reach 10% by 2020E (from 7% in 2010). The increasing purchasing power of consumers and growing number of working women, along with increased awareness about better fits, quality, colours and styling as well as an openness to indulge in innerwear apparel have led to a significant growth of the segment. Also, the growth in organised retail is offering better buying space to the consumer and pushing the brands to upgrade their retail imagery by increased marketing spends.

Exhibit 6: Indian innerwear expected to touch~ ₹ 44,000 crore by 2020E

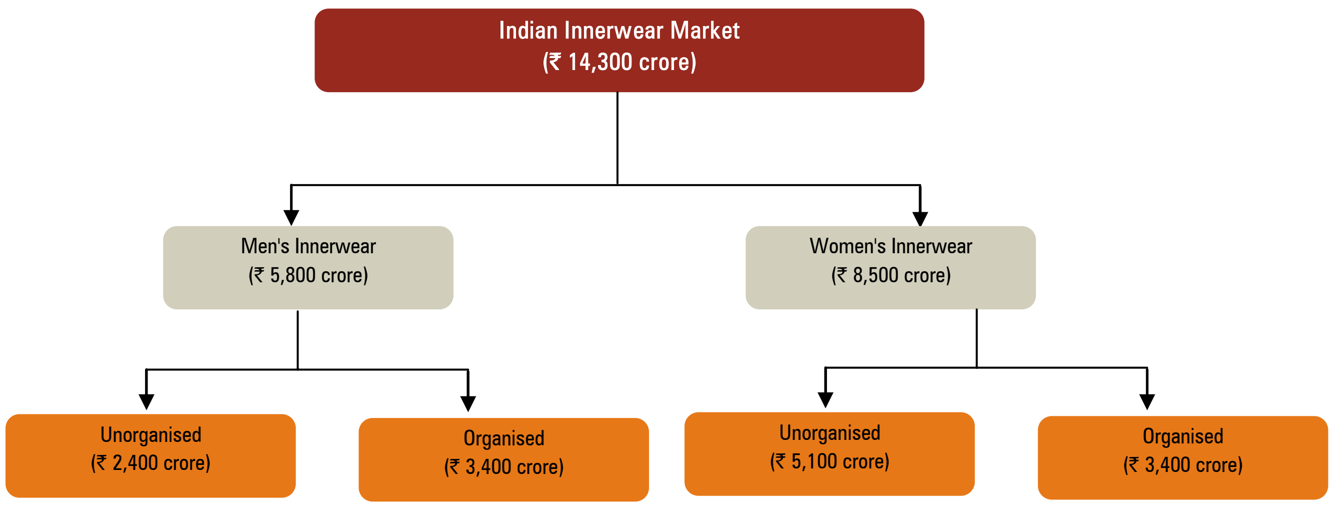
Images F&R Research estimates the Indian innerwear market to be worth ~ ₹ 14,000 crore, with the women's segment enjoying a larger share (~60%)



Source: Images F&R Research, ICICIdirect.com Research

The Indian innerwear market is currently valued at ~ ₹ 14,000 crore and is expected to grow at a CAGR of 13% during 2010-2020E. Of the ~ ₹ 14,000 crore innerwear market, the men's innerwear market accounts for ~ ₹ 5,800 crore and the women's market size is currently ~ ₹ 8,500 crore. The estimated value of the Indian innerwear market is expected to touch ~ ₹ 44,000 crore by 2020E.

Exhibit 7: Indian apparel market (2011)



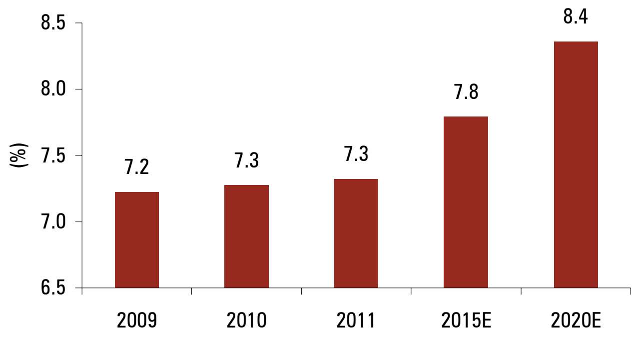
Source: Images F&R Research, ICICIdirect.com Research

Images F&R Research estimates that the women's innerwear segment will outperform both the growth of the overall innerwear segment (13.2%) and the men's segment (10.0%) during 2010-2020E

In the men's innerwear segment, organised players have ~60% market share. On the other hand, the women's segment is relatively fragmented with only ~40% of the market being controlled by organised players. This also highlights the significant potential that organised players in the women's segment have. Images F&R Research estimates that at 15.0% CAGR during 2010-2020E, the women's segment will not only grow faster than the innerwear segment but will also grow significantly faster than the men's segment, which is expected to grow at a CAGR of 10.0% during the same period. The women's segment is expected to be worth ₹ 30,000 crore significantly outstripping the men's segment, which is likely to touch ₹ 13,700 crore by 2020E.

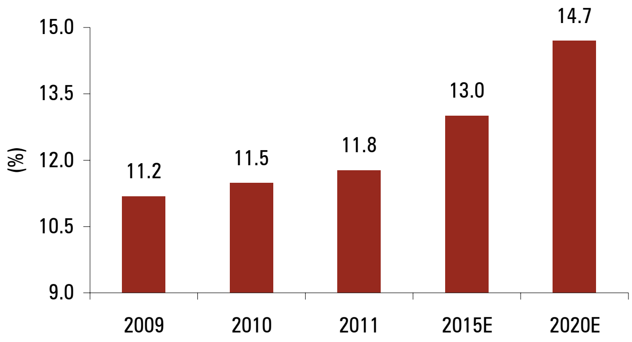
Changing dynamics of innerwear market

Exhibit 8: Men's innerwear market as percentage of men's apparel market



Source: Images F&R Research, ICICIdirect.com Research

Exhibit 9: Women's innerwear market as percentage of women's apparel market



Source: Images F&R Research, ICICIdirect.com Research

The Indian innerwear market has witnessed a changing trend in the past with more and more people opting for better quality branded products. As discussed in Exhibit 4 and 5 the share of innerwear in the total apparel market is likely to increase from 7% in 2010 to 10% in 2020E. While the same is expected to increase from 7.3% in 2011 to 8.4% in 2020E for the men's segment, the women's segment is expected to see the share increase to 14.7% by 2020E (from 11.8% in 2011).

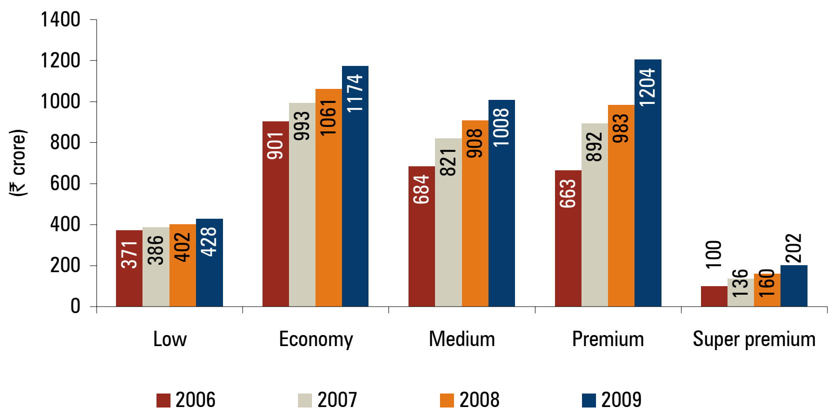
What has led to this change?

Men's innerwear market

Men's innerwear category-wise growth

	% CAGR (2006-09)
Low	4.9
Economy	9.2
Medium	13.8
Premium	22.0
Super premium	26.4
Total	13.9

Exhibit 10: Men's innerwear market size (category-wise)

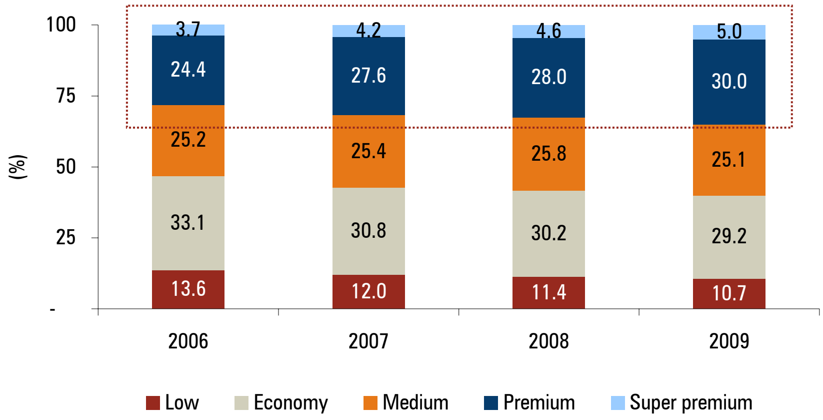


Source: Images F&R Research, ICICIdirect.com Research

During 2006-2009, the men's innerwear segment grew 13.9%, mainly led by growth in the medium, premium and super premium categories. The growing per capita income and the consequent increase in disposable incomes led to a faster growth of the premium and super premium categories (22.0% and 26.4% CAGR during 2006-09). Over a span of four years, both these segments have doubled in size. Also, the entry of international brands, growth of modern retail formats and availability of more choices have led to the growth of this segment.

The share of premium and super-premium segments taken together has increased from 28.1% in 2006 to 35.0% in 2009

Exhibit 11: Percentage share of categories (men's segment)



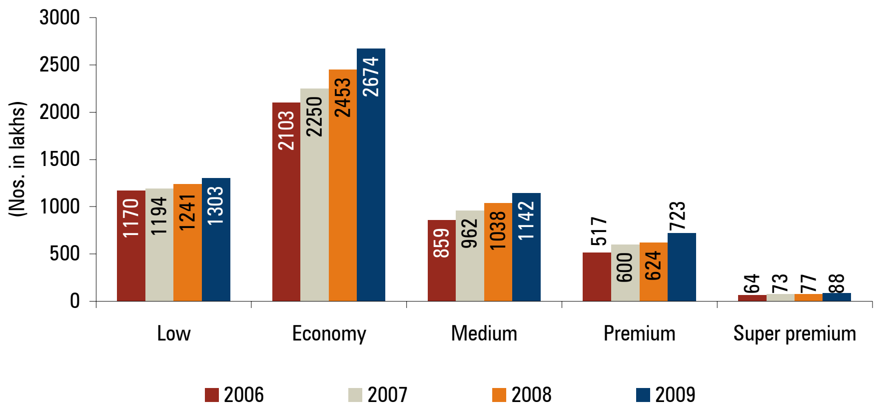
Source: Images F&R Research, ICICIdirect.com Research

Over the years, the share of premium and super-premium categories in the overall pie has been on the rise. The share of low and economy segments has come down from 13.6% and 33.1% in 2006 to 10.7% and 29.2% in 2009, respectively. On the other hand, the share of premium and super-premium categories has risen from 24.4% and 3.7% in 2006 to 30.0% and 5.0% in 2009, respectively. The growth in share of the premium and super-premium segments has been equally contributed by volume and value growth, albeit on a small base.

Men's innerwear volume growth

	% CAGR (2006-09)
Low	3.7
Economy	8.3
Medium	10.0
Premium	11.9
Super premium	11.2
Total	8.0

Exhibit 12: Men's innerwear market volume trend (category-wise)



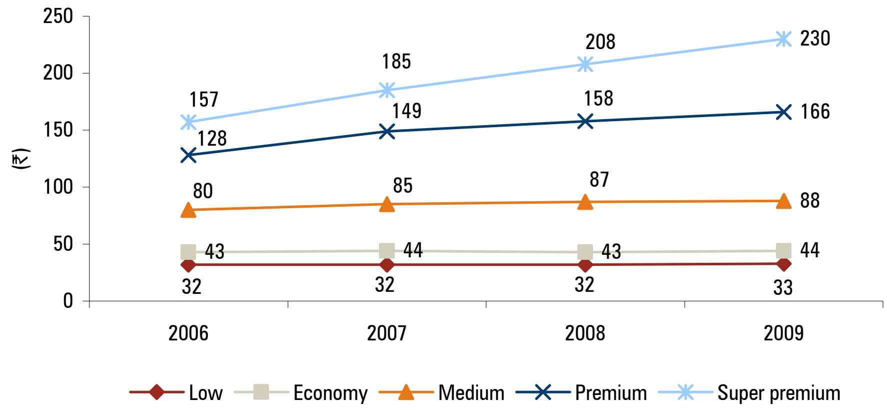
Source: Images F&R Research, ICICIdirect.com Research

In volume terms, men's innerwear accounted for 47.3% of the overall innerwear segment volumes in 2009. A similar trend is visible in volume growth as well; the medium, premium and super-premium segments continued to outperform the volume growth for the men's innerwear segment.

Men's innerwear ASP growth

	% CAGR (2006-09)
Low	1.0
Economy	0.8
Medium	3.2
Premium	9.1
Super premium	13.6

Exhibit 13: Average selling price trend in men's innerwear segment (category-wise)



Source: Images F&R Research, ICICIdirect.com Research

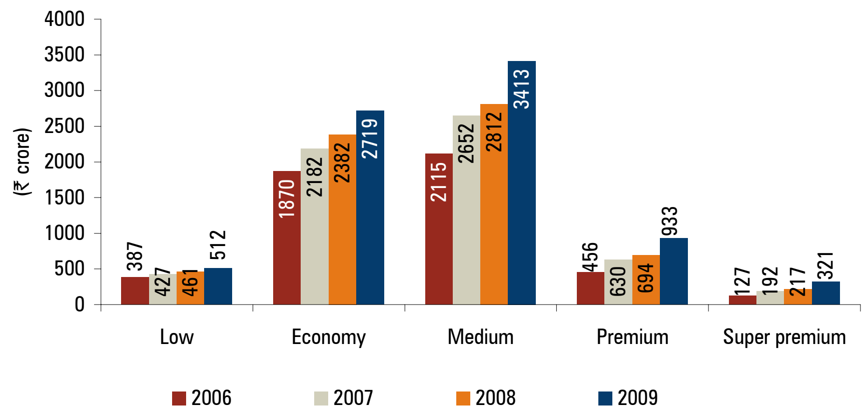
The men's innerwear segment has product offerings ranging from ₹ 33 a piece to ₹ 230 a piece. While average selling prices (ASP) for the low, economy and medium segment have remained flat during 2006-2009, the premium and super premium segments have witnessed an increase. ASPs in the premium segment have increased from ₹ 128 per piece in 2006 to ₹ 166 in 2009. Similarly, ASPs in the super-premium segment have witnessed 13.6% CAGR to reach ₹ 230 per piece in 2009 (from ₹ 157 in 2006). This clearly demonstrates the ability of players in the premium and super-premium segment to pass on price hikes, without affecting volumes at large.

Women's innerwear market

Women's innerwear category-wise growth

	% CAGR (2006-09)
Low	9.8
Economy	13.3
Medium	17.3
Premium	27.0
Super premium	36.2
Total	16.8

Exhibit 14: Women's innerwear market size (category-wise)



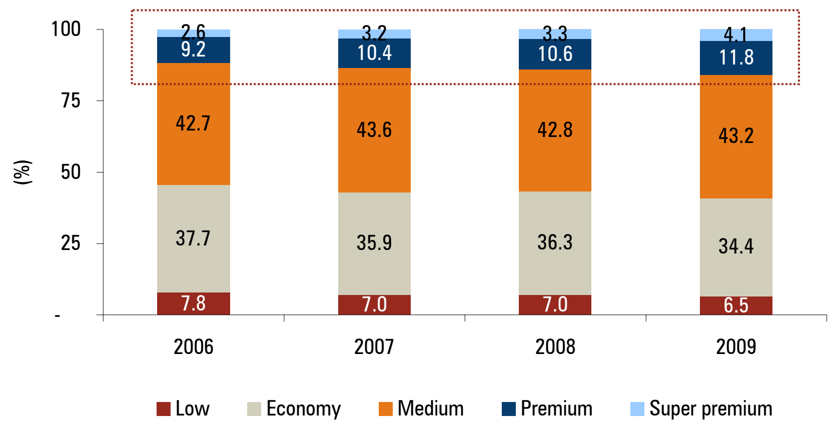
Source: Images F&R Research, ICICIdirect.com Research

Over a four year horizon (2006-2009), the premium segment doubled from ₹ 456 crore to ₹ 933 crore. The super-premium segment grew 2.5x to ₹ 321 crore

During 2006-2009, the women's innerwear segment grew at 16.8%, outperforming the overall innerwear segment and the men's innerwear segment growth. While all segments contributed to this growth, the leaders were once again the medium, premium and super premium categories. While this can be broadly attributed to the advent of multinational brands in the market place and the growth of organised retail, a host of other variables like growing number of working women, changing fashion trends, increased awareness about better fits, quality, brands, colours, styling, increasing per capita disposable income, rising level of information and media exposure have also given the industry a new dimension.

The share of premium and super-premium segments taken together has increased from 11.8% in 2006 to 15.9% in 2009

Exhibit 15: Percentage share of categories (women's segment)



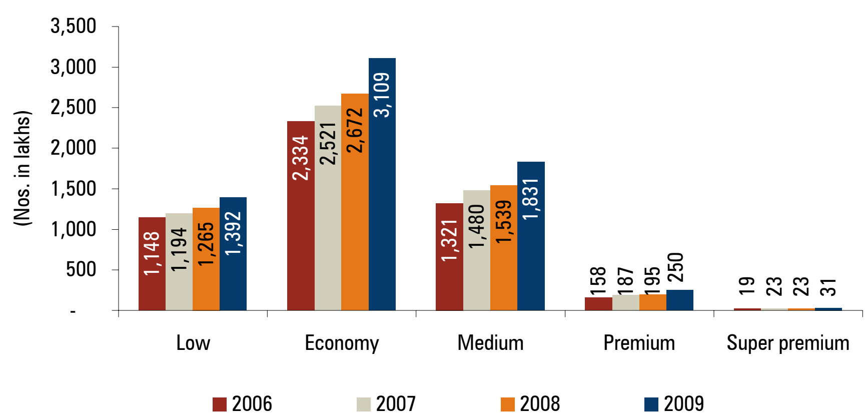
Source: Images F&R Research, ICICIdirect.com Research

Even in the women's category, the premium and super-premium segments continue to be the small and fast growing segments. The share of premium and super-premium categories has risen from 9.2% and 2.6% in 2006 to 11.8% and 4.1% in 2009, respectively. Conversely, the share of low and economy segments has come down from 7.8% and 37.7% in 2006 to 6.5% and 34.4% in 2009, respectively.

Women's innerwear volume growth

	% CAGR (2006-09)
Low	6.6
Economy	10.0
Medium	11.5
Premium	16.6
Super premium	18.9
Total	9.9

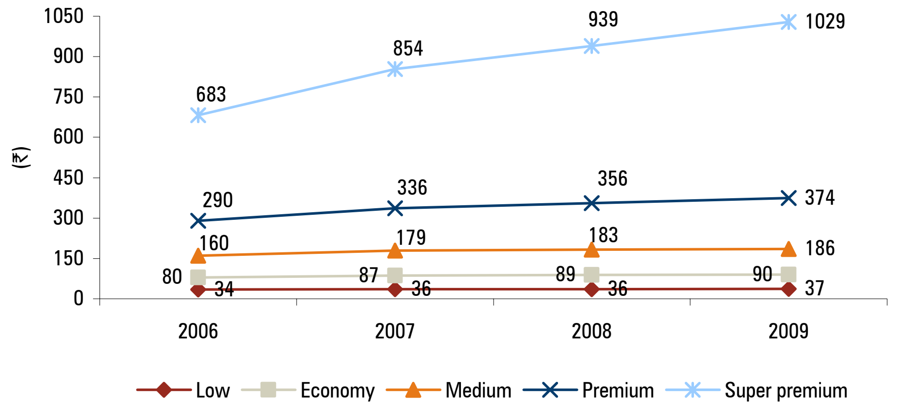
Exhibit 16: Women's innerwear market volume trend (category-wise)



Source: Images F&R Research, ICICIdirect.com Research

The women's innerwear segment accounts for 52.7% of the overall innerwear segment volumes in 2009. While all segments barring the low segment outperformed the overall growth in the women's innerwear segment, the premium and super-premium segments outperformed the broader growth by a significant margin. Going forward, with the increase of modern retail penetration, increased awareness in the rural and semi-urban areas and higher disposable income, the premium and super-premium segments are poised for robust growth.

Exhibit 17: Average selling price trend in women's innerwear segment (category-wise)



Source: Images F&R Research, ICICIdirect.com Research

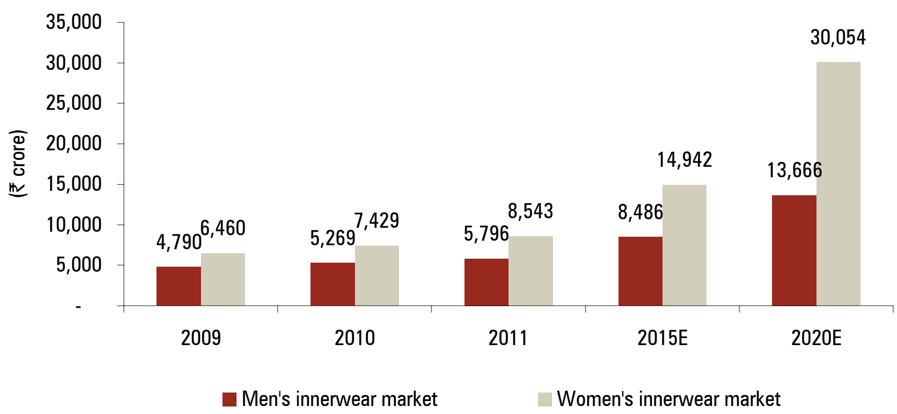
Women's innerwear ASP growth

	% CAGR (2006-09)
Low	2.9
Economy	4.0
Medium	5.1
Premium	8.8
Super premium	14.6

Despite a price hike of 8.8% and 14.6% CAGR during 2006-2009 in the premium and super-premium categories, volumes of the same segments have grown by a CAGR of 16.6% and 18.9%, respectively. This clearly demonstrates (a) the shift from low, mid and economy segments to premium and super-premium segments and (b) customer's willingness to pay a higher price for a better quality product

In value terms, the women's innerwear market comprises 66.3% share (as compared to 52.7% volume share) of the overall innerwear market. This clearly indicates that the ASP in the women's segment is higher than that in the men's segment. The women's innerwear segment has product offerings ranging from as low as ₹ 37 a piece to ₹ 1,029 a piece. ASPs in the premium segment have increased from ₹ 290 per piece in 2006 to ₹ 374 per piece in 2009, representing a CAGR of 8.8% during the period. Similarly, ASPs in the super-premium segment have witnessed 14.6% CAGR to reach ₹ 1,029 per piece in 2009, up from ₹ 683 in 2006. The aggressive growth observed in the premium and super-premium segments is testimony to the fact that consumers have moved beyond their over-sensitivity to pricing.

Exhibit 18: Women's segment set to outpace men's segment



Source: Images F&R Research, ICICIdirect.com Research

With growing consumption and shift from low-end to high-end products, the women's innerwear segment is set to outpace the men's innerwear segment. Images F&R Research expects the women's innerwear segment to grow from ₹ 6,460 crore in 2009 to ₹ 30,054 crore in 2020E.

Many international brands started eyeing the Indian markets on the back of the booming consumerism. Increasing working population, lower dependence ratio and rising disposable incomes that make the Indian markets attractive for any consumer oriented company

Entry of foreign players

Exhibit 19: Foreign players flocking to India

Year	Brand	Mode
1995	Jockey	Brand Licensing
1996	Lovable	Bought out brand in December, 2000
2002	Triumph International	Exclusive outlets through the franchise model
2003	Enamor	JV between Gokaldas Image and French lingerie company, Barbara
2006	La Senza	Franchise with Fashion Brands India Pvt. Ltd
2007	Etam	Equal JV with Pantaloon Retail
2007	Amanté	Wholesale route of shop-in-shop
2007	Undercolors	United Colors of Benetton's lingerie brand
2007	Espirit	Introduced lingerie line
2007	Calvin Klein	Brand Licensing
2007	La Perla	Partnership with the Murjani Group
2009	Fruit of the loom	

Source: Franchise India, ICICIdirect.com Research

In the last one or two decades, the Indian market has witnessed an influx of a host of foreign players across different product categories. In the present retail scenario, India is well positioned as a promising destination for many international brands.

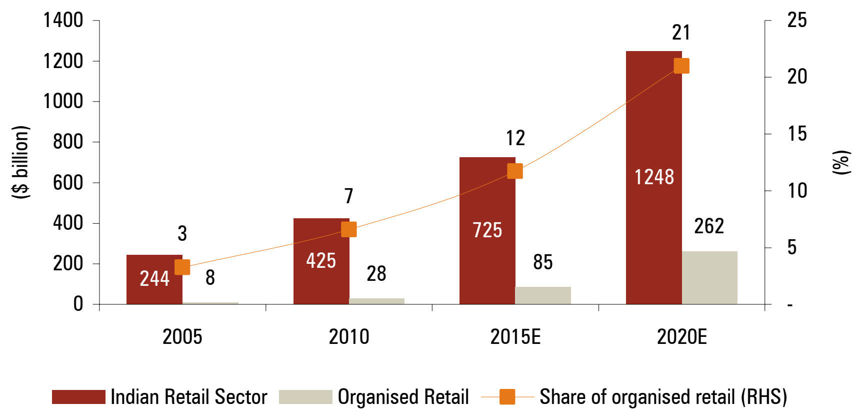
The Indian innerwear segment, which was predominantly operated by local Indian stores, witnessed some positive changes after the entry of foreign players. Innerwear companies have now started spreading product awareness through advertisements (more openly), fashion shows etc., to reach out to consumers. Also, with an increasing presence of modern retail, innerwear products are displayed through exclusive brand outlets and also in malls, etc. vis-à-vis being sold in local stores with minimal display

A large part of the Indian innerwear market was highly dominated by the low, economy and mid-market segment offerings of domestic suppliers. With the entry of foreign brands, the dynamics of the Indian innerwear market started to change. Many international players such as Lovable, Triumph, Etam, Jockey and many more entered the Indian markets and are successfully expanding in India through the franchising route.

The entry of foreign players has also revamped the way the industry operates. The innerwear segment was earlier not as bold in terms of advertising and product display. Earlier, innerwear purchases were limited to local stores and there was not much advertising about the same. International brands have changed both these aspects about the industry also. The companies have now started spreading product awareness through advertisements (more openly), fashion shows, etc. to reach out to consumers and understand their preference. Also, with the increasing presence of modern retail, innerwear products are displayed through exclusive brand outlets and also in malls, etc.

Increasing penetration of organised retail

Exhibit 20: Increasing share of organised retail



Source: BCG-CII report, ICICIdirect.com Research

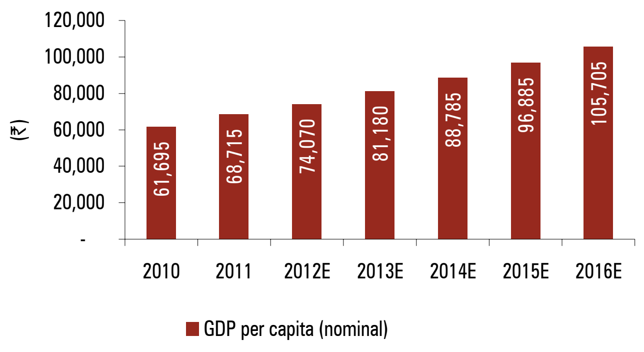
The Indian retail sector is expected to grow at a CAGR of 11.4% during 2010-2020E to $1,248 billion while the organised retail segment is expected to grow at a CAGR of 25.1% during 2010-2020E to $262 billion. The robust growth of the Indian retail sector has also acted as a strong driver of growth for the Indian apparel and innerwear sector

Considering the favourable demographics of the Indian economy the Indian retail sector grew at a CAGR of 11.7% during 2005-2010 and is further expected to grow at a CAGR of 11.4% during 2010-2020E to $1,248 billion. Furthermore, organised retail grew at a CAGR of 28.5% during 2005-2010 and is likely to grow at a CAGR of 25.1% during 2010-2020E to $262 billion.

With increasing mall space, companies get a better opportunity to (a) spread awareness about their brand and (b) display their products. The robust growth of the Indian retail sector has also acted as a strong driver of growth for the Indian apparel and innerwear sector.

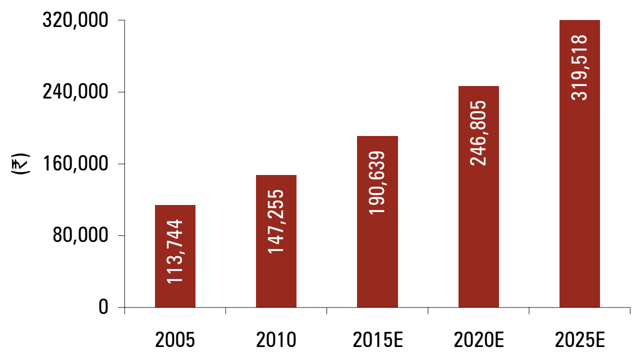
Changing Indian demographics

Exhibit 21: IMF expects per capita income to grow at a CAGR of 9.0%



Source: International Monetary Fund (2011 estimate), ICICIdirect.com Research

Exhibit 22: …while disposable income is likely to go up by 5.3%

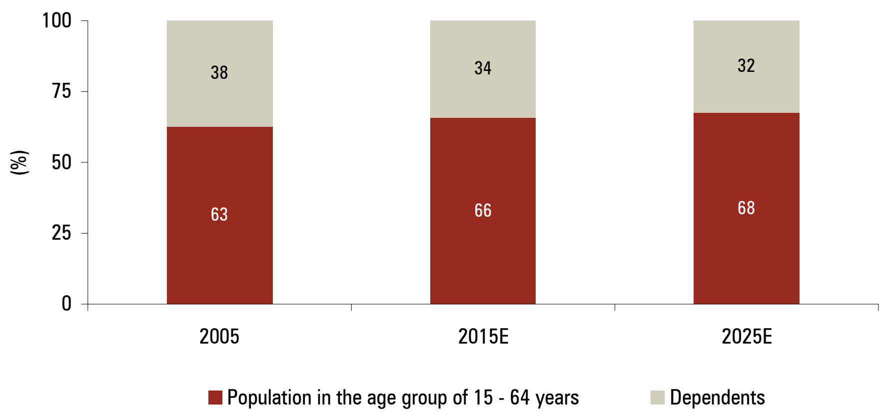


Source: MGI, ICICIdirect.com Research

Improving Indian demographics have put the Indian consumer sector in a sweet spot. All indicators like rising per capita income (CAGR of 9.0% till 2016E), increasing disposable income (CAGR of 5.3% till 2025E, larger working population (from 63% in 2005 to 68% in 2025E) augur well for Indian consumers and consumer oriented companies

As per IMF's 2011 estimates, India's per capita GDP is expected to increase from ₹ 68,715 in 2011 to ₹ 1,05,705 in 2016E. Simultaneously, McKinsey Global Institute (MGI) expects the average household disposable income in India to grow at 5.3% CAGR to ₹ 319,518 in 2010-25E on the back of ~10x rise in middle class households in 2025E (128 million vs. 13 million households in 2005). This will lead to an increase in the disposable income, which will fuel consumption growth.

Exhibit 23: India's rising working population



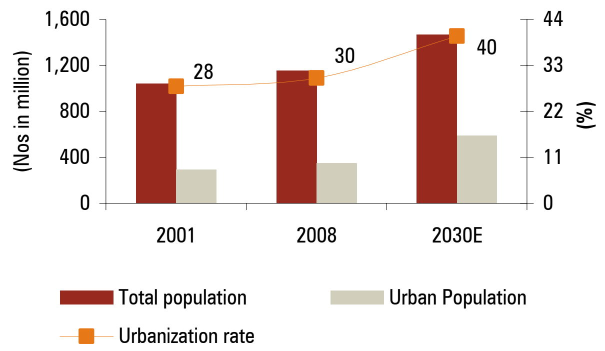
Source: MGI, ICICIdirect.com, Research

In addition, India is blessed with favourable demographics as the share of working population (people in the age group of 15–64 years) in the total population is expected to reach ~68% in 2025E (vs. 63% in 2005), pushing household discretionary spending to ~70% of the total household spending in 2025E (vs. 52% in 2005). Also, the rapid rise in organised retail in the domestic market, which is expected to grow at 35% CAGR to US$67 billion in CY10-14E as per Business Monitor International (BMI) estimates, provides credence to the consumption growth story in the country.

Exhibit 24: Changing population mix: Number of people in age group of 15-64 to go up from 64.8% of population in 2011 to 67.0% in 2020E…

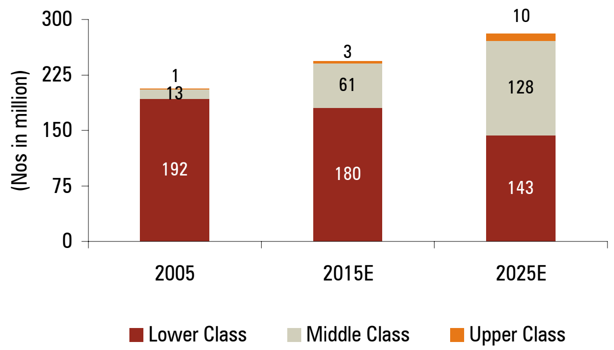
Source: U.S. Census Bureau, ICICIdirect.com Research

Exhibit 25: …rapid pace of urbanisation…



Source: MGI, ICICIdirect.com Research

Exhibit 26: …and rising number of middle class households…



Source: MGI, ICICIdirect.com Research; Classes are based on income levels with 'Lower' class representing income of < ₹200,000 per annum; 'Middle' class between ₹200,000 and ₹1,000,000 per annum ; and 'Upper' class > ₹ 1,000,000 per annum

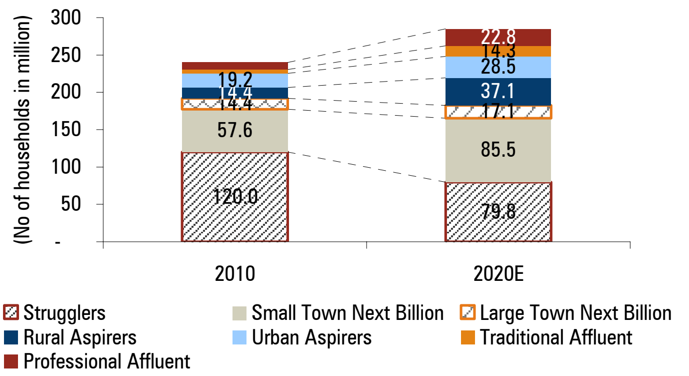
Exhibit 27: …to boost consumption spend by 3.6x by 2020E!

(in $ billion)	2000		2010		2020E
Food	135	2.4x	328	2.7x	895
Housing & consumer durables	47	4.0x	186	4.0x	752
Transport & communication	43	3.9x	168	3.9x	664
Education & Leisure	17	4.2x	71	4.2x	296
Apparel	18	3.3x	59	3.8x	225
Health	14	3.5x	49	3.8x	183
Others	25	5.2x	129	4.4x	570
Total	299	3.3x	990	3.6x	3585

Source: BCG-CII report, ICICIdirect.com Research

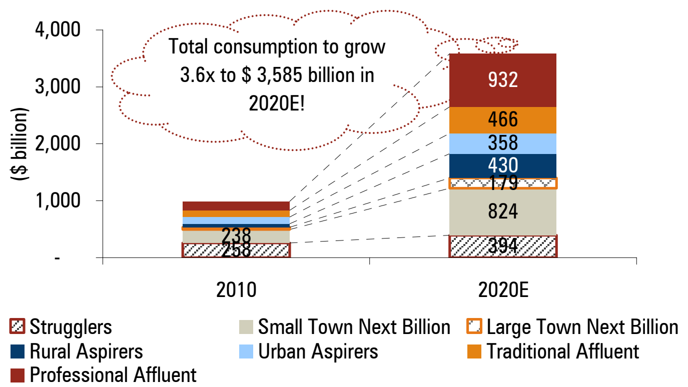
A recent survey conducted by the Boston Consultancy Group and Confederation of Indian Industry (BCG-CII) estimates that India's consumption market will grow approximately 3.6x in size over the next decade. Overall consumption expenditure, estimated at US$991 billion in 2010, is likely to grow to US$3.6 trillion in 2020E.

Exhibit 28: Changing income levels of households…



Source: BCG-CII report, ICICIdirect.com Research

Exhibit 29: Professional affluent & small town next billion to enjoy a large share of consumption



Source: BCG-CII report, ICICIdirect.com Research

The BCG-CII report has divided the Indian population into seven different segments based on annual income, education and lifestyle (refer Exhibit 30). BCG-CII expects the percentage of strugglers to come down from 50% of the total households in 2010 to 28% of total households in 2020E. On the other hand, the share of rural and urban aspirants and traditional & professional affluent is expected to increase from 20% in 2010 to 36% in 2020E. On the back of this growing affluence, BCG-CII expects the total consumption to grow 3.6x to $3,585 billion by 2020E (refer Exhibit 27 and 29). The professional affluent and the small town next billion segments will be the driving force of this consumption (to contribute ~50% of the consumption). The apparel segment, which accounts for 6% of the consumer spending, is expected to grow 3.8x to $225 billion by 2020E. The spending on apparel tends to increase with increase in disposable income. According to the BCG-CII research, apparel constitutes 10% of the consumption basket of affluent consumers as compared to only 5% of the small town next billion. Therefore, with rising income levels, the spending on apparel is likely to go up.

Exhibit 30: Segmentation of Indian population

Segment	Definition
Strugglers (50% of the households)	With an annual income less than US$3,300, typically illiterate with limited education, these consumers have jobs that are manual labour based with very low income, generally daily wage
Small Town Next Billion (24% of the households)	These consumers are similar to the Large Town Next Billion segment but live in smaller cities & towns and in rural India
Large Town Next Billion (6% of the households)	With incomes between US$3,300 and US$7,400, these consumers typically have basic education levels and have small businesses or low paying jobs. Their income levels allow them to sustain a basic lifestyle. They live in towns and cities with a population greater than 500,000
Rural Aspirers (6% of the households)	With income levels, education and occupation similar to Urban Aspirers, these consumers live in rural India. They consume less than their urban counterparts and are comparatively less aspirational
Urban Aspirers (8% of the households)	With an annual household income between US$7,400 and US$18,500, these consumers are educated and have mid-sized businesses or stable jobs. They live in urban cities and have high aspirations for their lifestyle
Traditional Affluent (4% of the households)	With annual household income levels similar to the Professional Affluent, these consumers are less educated and typically self employed. They are more value conscious and less comfortable with credit than the Professional Affluent
Professional Affluent (2% of the households)	With an annual household income above US$18,500, these consumers are well educated and work as executives, managers or are self employed professionals

Source: BCG-CII report, ICICIdirect.com Research

Valuation

Exhibit 31: Relative Valuation (FY14E)

Company	EBITDA Margin	RoE	RoCE	P/E	P/BV	FCF yield	Debt/ EBITDA
Lovable Lingerie	19.1	15.4	18.4	19.6	3.0	3.2	-
Page Industries	20.7	56.2	47.0	19.9	11.2	2.4	0.8
Rupa & Company	12.5	22.6	23.8	18.0	4.1	3.1	1.5

Source: ICICIdirect.com Research

We undertook a rating activity whereby we assigned weights to several financial parameters and ranked the companies in the peer group to decipher the company with superior financials. We have assigned a 10% weightage each to operating margin, P/E ratio and P/BV ratio. We have assigned a 15% each weightage to the FCF yield and Debt/EBITDA and a 20% each weightage to the return ratios. Based on these parameters, Page Industries stands out as the best among its peers.

Exhibit 32: Rating Matrix

Company	EBITDA Margin	RoE	RoCE	P/E	P/BV	FCF yield	Debt/ EBITDA
Lovable Lingerie	2	3	3	2	1	1	1
Page Industries	1	1	1	3	3	3	2
Rupa & Company	3	2	2	1	2	2	3

	Weighted Average Ranking	Final Ranking
Lovable Lingerie	2.0	2
Page Industries	1.9	1
Rupa & Company	2.2	3

Source: ICICIdirect.com Research

Consumption stocks – always trading at higher multiples

The innerwear segment stocks are trading at a multiple of 22-25x one year forward earnings. Our comparison with stocks in the consumption space reveals that the stocks in the Indian innerwear space are still trading substantially lower than the average P/E of 29.6x (FY13E EPS) for all consumption stocks taken together

We believe the stocks in the innerwear segment like Page Industries, Lovable Lingerie and Rupa & Company are similar to consumption sector stocks like Marico, Dabur, Titan Industries, Asian Paints and Jubilant Foods. The performance of these (consumption) companies is also driven by brand preferences, rising disposable incomes, etc. We believe this sector deserves to trade at such multiples considering the superior return ratios, healthy free cash flow generation, consistent growth and healthy dividend payout.

Exhibit 33: Comparison of consumption stocks

Company	Market Cap (₹ crore)	RoE (%)	P/E (x)	EV/EBITDA (x)	Revenue CAGR (FY11-13E)
Marico	10,451	30.9	25.1	18.2	22.0
Dabur	18,327	39.9	23.5	18.1	21.3
Titan	20,286	43.4	27.7	19.7	27.6
Asian Paints	30,584	38.2	26.4	17.0	18.5
Jubilant Foods	7,039	44.3	45.1	25.8	40.1
Average		39.3	29.6	19.7	25.9

Source: Bloomberg Consensus Estimates, ICICIdirect.com Research

March 29, 2012

Page Industries Ltd (PAGIND)

₹ 2688

Riding the consumption boom…

Page Industries (Page), a dominant player in Indian branded innerwear and leisurewear segment, is expected to be the key beneficiary of the changing preference of the Indian consumer towards branded apparel owing to favourable demographics like rising disposable income, increased urbanisation and enhanced organised retail penetration. Strong brand recall for its flagship brand 'Jockey' owing to its early mover advantage provides it a competitive edge compared to other international peers. With the Indian innerwear segment expected to grow at a faster pace (CAGR of 13.2% over 2011-2020E) than the Indian apparel industry (CAGR of 10.6% over 2011-2020E), Page appears well poised to capitalise on the opportunity enabling consistent growth in revenues and profitability.

Strong brand recall to enable leveraging of robust growth of innerwear industry

Over the last 15 years, since it began selling the Jockey brand in India, Page Industries has invested in setting up a strong distribution network and continuously spent on advertisement for building the brand image and has virtually achieved a super brand status for the 'Jockey' brand. The brand name 'Jockey' is synonymous with the image of premium and super premium innerwear in the Indian customer's mindset. Strong brand recall and a substantial presence in the high growth premium and super premium innerwear categories would enable Page Industries to capture the vast growth opportunities available in the innerwear segment.

Fundamentals to remain on strong footing

We expect Page Industries to register a revenue and PAT CAGR of 31% and 37% over FY11-FY14E to ₹ 1100 crore and ₹ 150.6 crore, respectively. Strong revenue growth aided by EBITDA margin expansion of 230 bps over FY11-14E to 20.7% would lead to robust growth in net profit and lead to improvement in return ratios. We expect the RoCE to improve from 33.7% in FY11 to 47% in FY14E.

Valuations

Page has always traded at rich multiples owing to the strong financials, robust revenue growth (CAGR of over 30% despite higher base) and free cash flow generation. Apart from the robust and consistent topline growth, the company has also consistently rewarded its shareholders. We have valued the stock at 23.0x FY14E EPS of ₹ 135.1 to arrive at a target price of ₹ 3,016. We are initiating coverage on Page Industries with a BUY rating. At the CMP, the stock is trading at 25.3x and 19.9x its FY13E and FY14E EPS of ₹ 106.2 and ₹ 135.1, respectively.

Exhibit 34: Valuation Metrics

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales (₹ crore)	339.4	491.6	686.0	892.0	1,099.6
EBITDA (₹ crore)	64.2	90.4	134.2	179.2	228.0
PBT (₹ crore)	58.6	87.4	131.0	178.0	226.3
Net Profit (₹ crore)	39.6	58.5	87.2	118.5	150.6
EPS (₹)	35.5	52.5	78.2	106.2	135.1
PE (x)	18.3	51.2	34.4	25.3	19.9
PBV (x)	7.3	24.2	18.2	14.0	11.2
EV/EBITDA (x)	12.1	16.3	23.4	17.6	13.9
ROCE (%)	35.9	33.7	39.0	43.5	47.0
RONW (%)	40.0	47.3	52.8	55.3	56.2

Source: Company, ICICIdirect.com Research

Rating Matrix

Rating	:	Buy
Target	:	₹ 3106
Target Period	:	12 months
Potential Upside	:	16 %

YoY Growth (%)

	FY11	FY12E	FY13E	FY14E
Net Sales	44.8	39.5	30.0	23.3
EBITDA	40.9	48.5	33.6	27.2
Net Profit	47.8	48.9	35.9	27.2

Current & target multiple

	FY11	FY12E	FY13E	FY14E
PE	51.2	34.4	25.3	19.9
Target PE	59.2	39.7	29.2	23.0
EV/EBITDA	16.3	23.4	17.6	13.9
Target EV/EBITDA	39.6	26.9	20.2	16.0
Price/BV	24.2	18.2	14.0	11.2

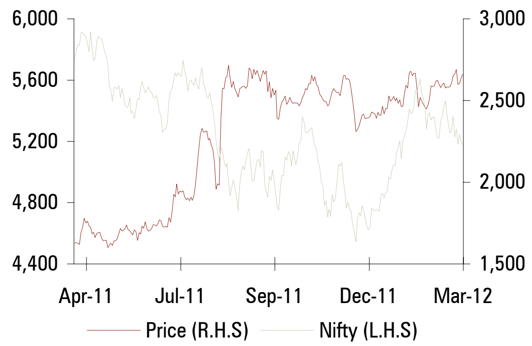
Stock Data

Bloomberg/Reuters code	PAG IN/ PAGE.BO
Sensex	17,059
Average volume	5,590
Market Capitalisation	₹ 2,998 crore
EV	₹ 3,172 crore
52 week H/L	₹3,044 / 1,590
Equity capital	₹ 11.2 crore
Face value	₹ 10
Promoter's stake (%)	59.7

Comparative return matrix (%)

Returns (%)	1m	3m	6m	12m
Page Industries	6.9	10.3	4.7	67.2
Lovable Lingerie	(9.3)	11.3	(24.6)	38.8
Rupa & Company	-	(2.0)	(7.7)	NA

Price movement



Analyst's name

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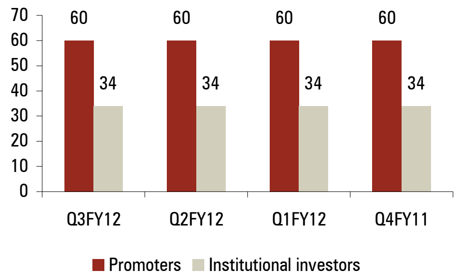
Dhvani Modi
dhvani.bavishi@icicisecurities.com

Share holding pattern (Q3FY12)

Shareholder	Holding (%)
Promoters	59.7
Institutional Investors	34.3
General Public	6.0

Institutional holding trend (%)



Company background

Page Industries Ltd, promoted by the Genomal brothers in 1995, is the exclusive licensee of Jockey International Inc (US) for manufacture and distribution of the Jockey® brand innerwear/leisure wear for men and women in India, Sri Lanka, Bangladesh, Nepal and UAE.

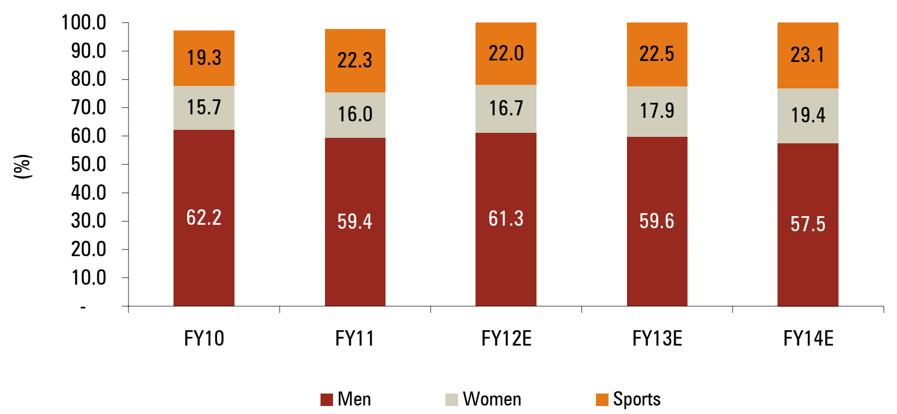
The promoters have been associated with Jockey International Inc. for over 50 years (since 1959) as their sole licensee in the Philippines. Because of the successful venture in Philippines, Jockey International Inc. gave a proposal to the Genomal brothers when they decided to tap the Indian markets. Jockey has not just been a pioneer in the underwear industry but has continued to influence the worldwide markets for over 130 years.

The company's product offerings include innerwear & casual wear for both men and women. Page's product offerings in the men's segment include inner tees, vests, briefs and trunks. The women's product portfolio comprises brassieres, panties, crop tops, sport tops, camisole, leggings and spaghetti tops. Under the casual wear segment, the offerings include bermudas, boxers, jersey pants, round neck T-shirts and polo shirts. It also caters to the winter wear segment, which comprises ~5% of the sales.

Over the last 17 years, the company has increased its base from three factories to eight factories and employs over 12,000 people. As on date, the company's plants have an installed capacity of 10.9 crore pieces, up from 2.1 crore pieces in FY07.

A strong distribution channel is one of Page's key strengths. The products are retailed in over 1,100 cities and towns through a network of over 400 distributors. These distributors are segmented geographically and also on the basis of the product range (men's innerwear, women's innerwear and leisurewear being the key segments). The distributors cater to over 20,000 retail outlets spread across five formats - chain stores (large format stores), multi brand outlets (MBOs), hosiery stores, multi purpose stores and exclusive Jockey brand outlets (EBOs).

Exhibit 35: Product Mix



Source: Company, ICICIdirect.com Research

Investment Rationale

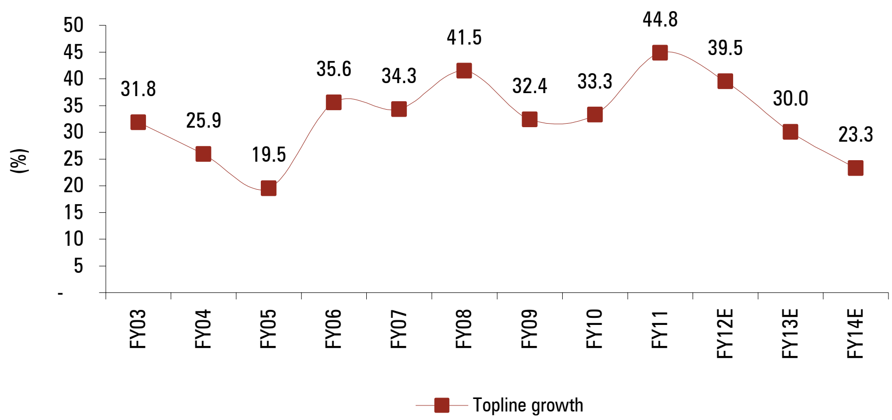
Exclusive licensee for Jockey till 2030

Page's licensing agreement with Jockey International was renewed in July 2010 wherein Page continues to hold the sole license for India, Sri Lanka, Nepal and Bangladesh. During this renewal, UAE was also added to the list and the license has been extended till 2030

Page's licensing agreement was renewed in July 2010 wherein Page is now the exclusive licensee to manufacture and sell the Jockey brand of innerwear and leisure wear products to India, Sri Lanka, Nepal and Bangladesh. Under the new licensing agreement, Page will also be the sole licensee for UAE. The royalty to be paid remains the same at 5% of factory price. This licensing agreement provides revenue visibility for a long period of time.

Page's topline grew at a CAGR of 33.0% during FY03-11. We expect a topline CAGR of 30.8% during FY11-14E

Exhibit 36: Topline growth trajectory



Source: Company, ICICIdirect.com Research

Early mover advantage

Page was one of the early entrants into the Indian innerwear market. It not only launched its product range into the country but also introduced newer methods to retail innerwear products in India

Exhibit 37: Foreign players flocking to India

Year	Brand	Mode
1995	Jockey	Brand Licensing
1996	Lovable	Bought out brand in December, 2000
2002	Triumph International	Exclusive outlets through the franchise model
2003	Enamor	JV between Gokaldas Image and French lingerie company, Barbara
2006	La Senza	Franchise with Fashion Brands India Pvt. Ltd
2007	Etam	Equal JV with Pantaloon Retail
2007	Amanté	Wholesale route of shop-in-shop
2007	Undercolors	United Colors of Benetton's lingerie brand
2007	Espirit	Introduced lingerie line
2007	Calvin Klein	Brand Licensing
2007	La Perla	Partnership with the Murjani Group
2009	Fruit of the loom	

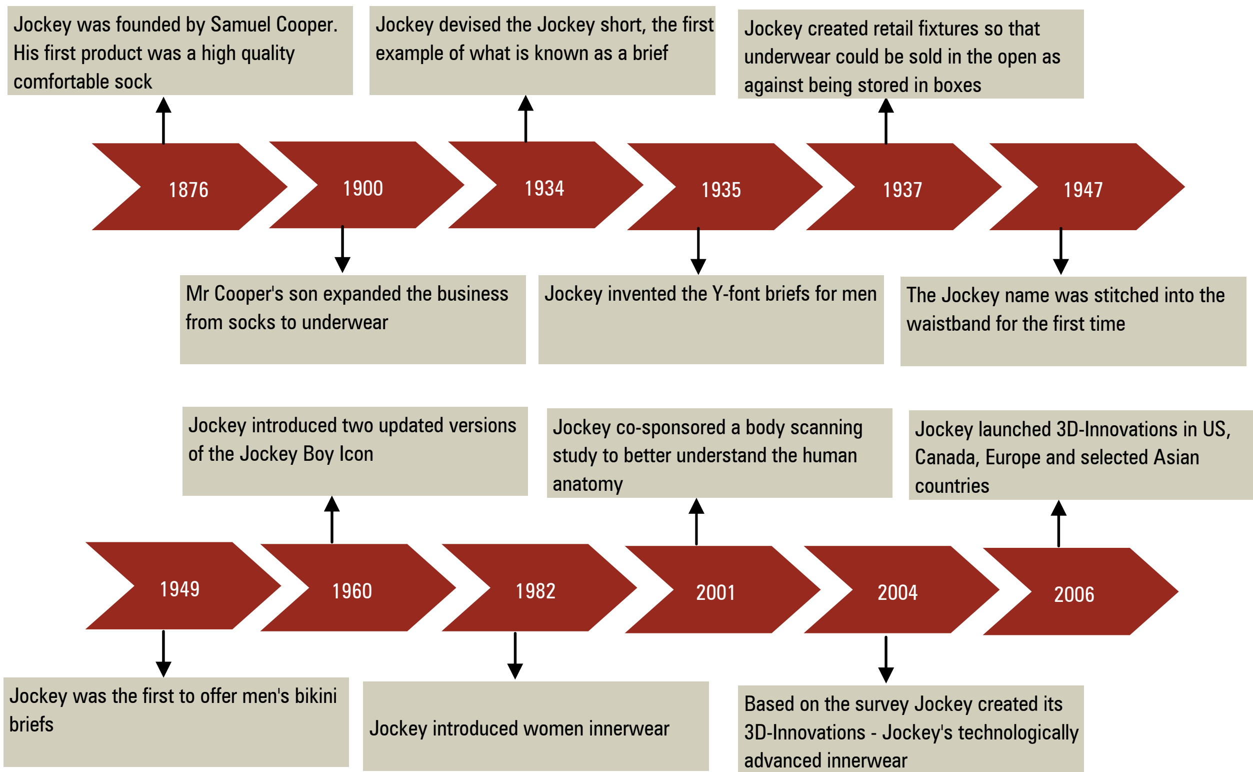
Source: Franchise India, ICICIdirect.com Research

In the early 1990s, when globalisation was just unfolding in India, innerwear was a low involvement category for consumers. There was no organised international quality innerwear brand retailed in India. Further to this, there was a void in the market for quality premium innerwear. Jockey International Inc. identified this void and decided to enter the Indian markets. It not only introduced products for men, women and children but also revolutionised the retail dynamics of the innerwear business. It introduced innovative marketing concepts such as display modules aimed at enhancing the consumer's involvement with the purchase.

Strong brand patronage

Jockey has not just been a pioneer in the underwear industry but has continued to influence worldwide markets for over 130 years. Its success has stemmed from revolutionary Jockey inventions such as the world's first ever brief in 1934, the bikini brief, the string bikini, box packaging and a host of underwear fashion and fabric innovations. Across all markets, Jockey has a singular positioning of comfort. Jockey's international success is a derivative of its consumer centric strategies and commitment to quality and value. Jockey's culture of collaboration across over 43 licensees and associates around the globe ensures a gamut of international learning and experience.

Exhibit 38: Jockey International's key milestones

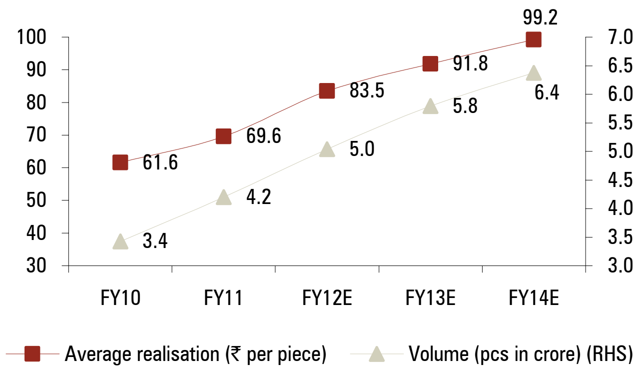


Source: Company, ICICIdirect.com Research

Pricing power

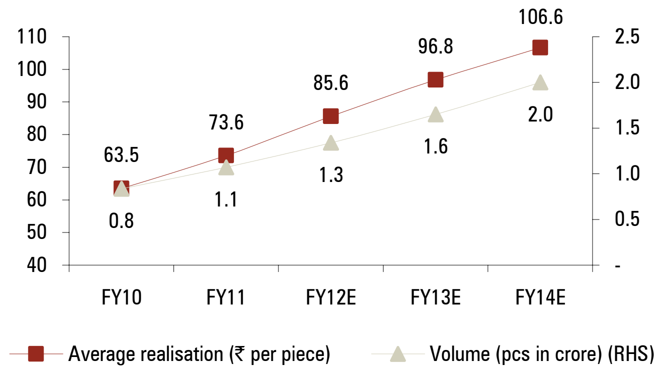
Over the years, Page has witnessed healthy volume growth despite taking constant price hikes. Considering its strong brand equity and also the first mover advantage, Page is able to command a premium over other players. Also, as compared to international players, Page's prices are not as high. Hence, it has further headroom to hike prices.

Exhibit 39: Realisation vs. volumes (men's segment)



Source: Company, ICICIdirect.com Research

Exhibit 40: Realisation vs. volumes (women's segment)



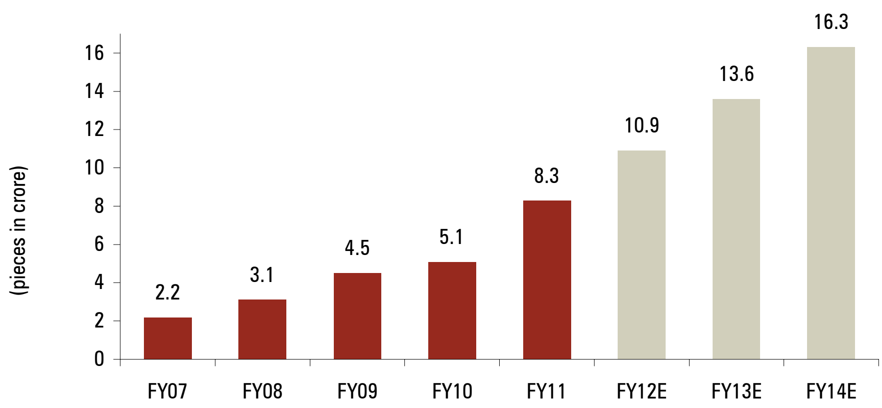
Source: Company, ICICIdirect.com Research

Continuous capacity addition

From a small base of a capacity of 2.2 crore pieces per annum, Page has increased the capacity of manufacturing innerwear and leisure products to 10.9 crore pieces per annum as on December 2011. The capacity has grown at a CAGR of 37.9% during FY07-12E. Going forward also, the company plans to continue capacity addition. With a capacity of 10.9 crore pieces per annum and a capacity utilisation of over 80%, the company is currently only able to cater to the Indian markets. With further augmentation of the capacities, the company will be able to explore opportunities in the neighbouring markets (Sri Lanka, Nepal, Bangladesh and UAE).

Page's total capacity has grown at a CAGR of 37.9% during FY07-12E

Exhibit 41: Continuous capacity addition



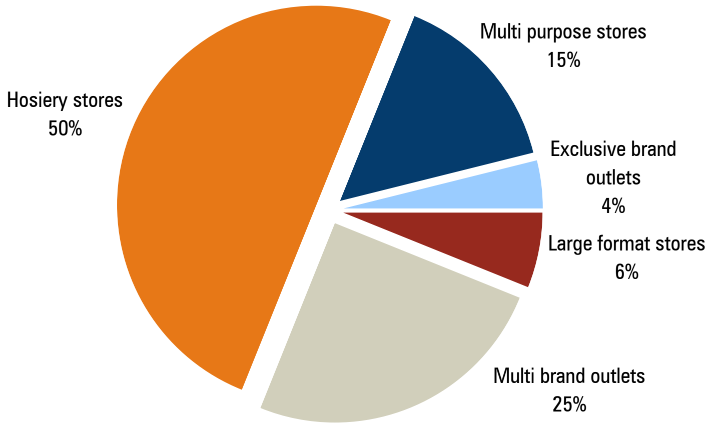
Source: Company, ICICIdirect.com Research

Well spread distribution network

Page has built a strong distribution network through which it distributes its products. The products are retailed in over 1,100 cities and towns through network of over 400 distributors. These distributors are segmented geographically and also on the basis of the product range (men's innerwear, women's innerwear and leisurewear being key segments). The distributors cater to over 20,000 retail outlets spread across five formats - chain stores (large format stores), multi brand outlets (MBOs), hosiery stores, multipurpose stores and exclusive Jockey brand outlets (EBOs). Any new player entering this segment will have to invest a lot of time and money to create a distribution network of this size and scale, thereby giving Page a competitive advantage.

Over the years, Page has built a strong retailing model to tap all possible avenues for marketing its products. While the largest share of revenues comes from traditional hosiery stores, multi brand outlets garner the second highest share of revenues for Page. Going forward, with the growth of these formats (modern retail), Page's revenues also have a strong potential for growth

Exhibit 42: Revenue mix based on distribution mode



Source: Company, ICICIdirect.com Research

Product additions to further boost topline

Page has tied up with swimwear brand Speedo International to manufacture, market and distribute the brand in India. Under the exclusive licensing agreement, effective from July 2011, Page will make swimwear, water shorts, apparel, equipment and footwear in India. Page will be able to leverage the strong distribution network created for the innerwear products to market this range of swimwear products also.

Export markets: The untapped potential

Other than India, Page is the sole licensee for the Sri Lanka, Nepal, Bangladesh and UAE. With its existing capacity, Page is only able to service the Indian markets. Going forward, the export markets can also provide an upside to the earnings potential. We have not factored any revenues from the export markets in our estimates. Any positive development on this front will provide further upsides to our earnings estimates.

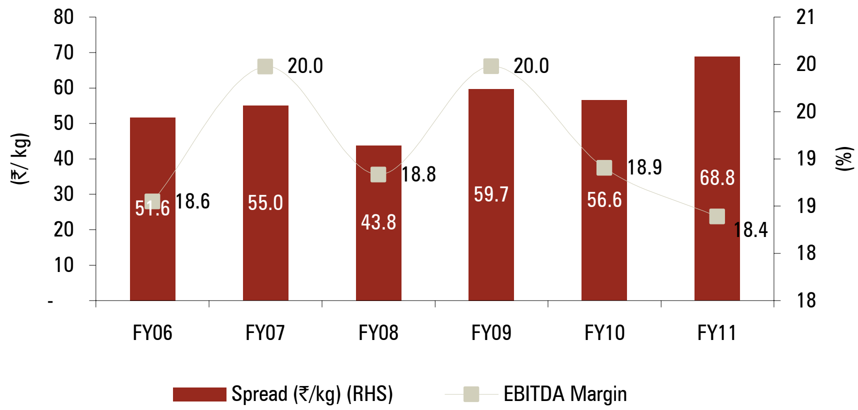
Risk & concerns

Any adverse movement in cotton (key raw material) prices

Cotton and cotton related products account for ~70% of the company's raw material costs. Any adverse movement in prices and/or the company's inability to pass on the impact of the same can negatively impact the profitability of the company

Cotton yarn and fabric account for ~70% of the total raw material costs. An inability to pass on the impact of the increase in raw material prices will have an adverse impact on the company's profitability. Also, too many price hikes will also take a toll on the volume growth prospects of the company.

Exhibit 43: Cotton and cotton yarn spread and impact on operating margin

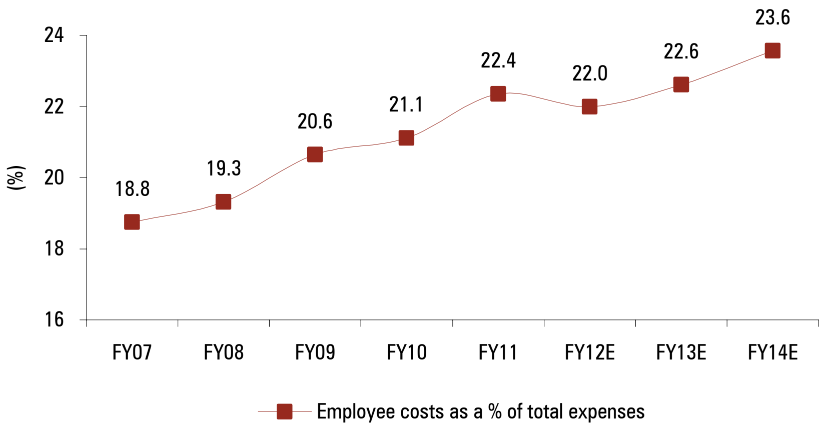


Source: Company, ICICIdirect.com Research

Lack of availability of man power could be deterrent to growth

Textile being a labour intensive business is highly dependent on the availability of manpower for an uninterrupted performance of the business

Exhibit 44: Labour costs as a percentage of total expenditure



Source: Company, ICICIdirect.com Research

The textile industry as a whole is a highly labour intensive industry. Lack of availability of skilled labour poses a threat to the expansion plans of any company. Companies in this space conduct various activities so as to retain their staff. Some of them include having a crèche (so that babies are taken care of while the mother is at work), imparting education, etc. Over and above this, the companies need to adhere to the labour laws laid down by the government. Any revision of salary structure, etc. also impacts the operational performance of the company.

Non-renewal of license

The Genomal brothers have a long standing relationship of over 50 years with Jockey International. However, failure to renew the license post 2030 will significantly affect the company.

Slowdown in economic growth

A blip in economic growth will affect the financial performance of the company as demand for its products will begin to weaken

The improving Indian demographics have given credence to the Indian consumption story. Any blip in economic growth for an elongated period will impact the discretionary spends thereby negatively impacting the earnings potential of the company.

Brand loyalty

Consumers are not always loyal to brands. They tend to switch brands based on newer launches, promotions, etc

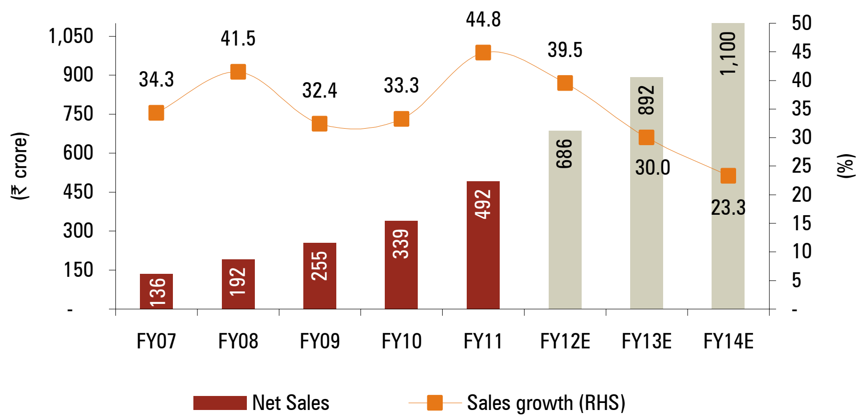
The Indian markets are crowded with a host of brands both national and international. The consumer has a whole host of options from which to pick and choose products. The experimental nature of humans makes them want to try new products launched in the market. Also, customers get easily attracted towards brands that offer big discounts. On the back of these factors, establishing a permanent connect and gaining brand loyalty becomes difficult for companies. This leads to companies losing business to their competitors.

Financials

Page's turnover is likely to touch ₹ 1,100 crore by FY14E, led by higher growth in the women's segment (vs. the men's segment

Sales to grow at CAGR of 30.8% during FY11-14E

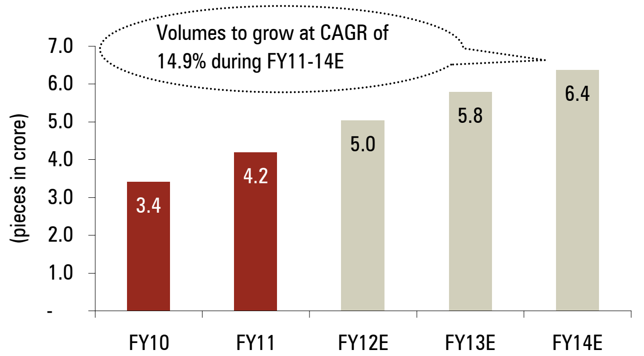
Exhibit 45: Topline expected to grow at CAGR of 30.8% during FY11-14E…



Source: Company, ICICIdirect.com Research

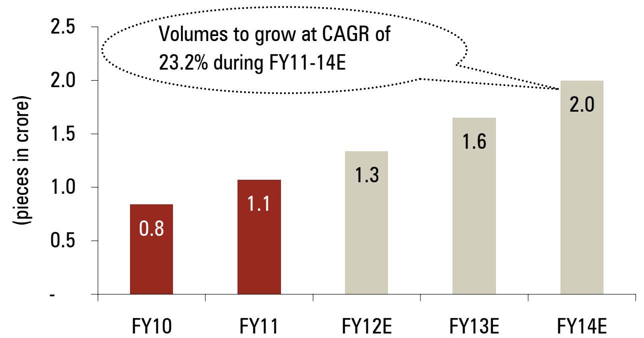
We expect the topline to increase at a CAGR of 30.8% during FY11-14E on the back of strong growth in the women's category. With the base effect kicking in, we expect sales growth to moderate from 37.9% during FY07-11. Page's sales are expected to increase from ₹ 491.6 crore in FY11 to ₹ 1,099.6 crore in FY14E.

Exhibit 46: …led by 14.9% CAGR in volumes in men's segment…



Source: Company, ICICIdirect.com Research

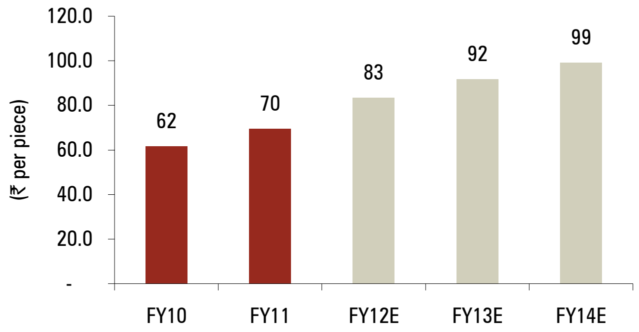
Exhibit 47: …23.2% CAGR in women's segment volumes…



Source: Company, ICICIdirect.com Research

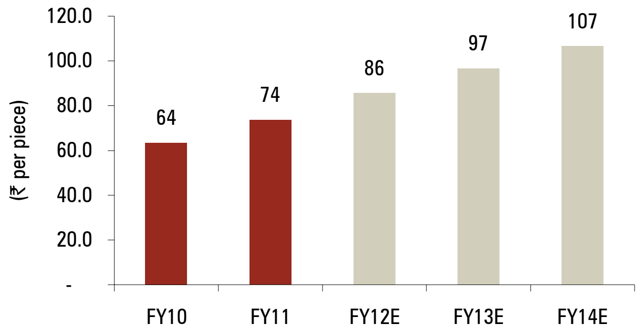
Page has been continuously expanding its capacities and operating at a utilisation rate of 85-90%. Consequently, the volumes for the company have also been on the rise. Going forward also, we expect this trend to continue. We expects volumes in the men's segment to increase from 4.2 crore pieces in FY11 to 6.4 crore pieces in FY14E, growing at a CAGR of 14.9% during the period. Similarly, volumes in the women's segment are also expected to grow at a CAGR of 23.2% (higher than that in the men's segment) from 1.1 crore pieces in FY11 to 2.0 crore pieces in FY14E. We expect revenues to increase from ₹ 70 and ₹ 74 per piece in FY11 to ₹ 99 and ₹ 107 per piece in FY14E in the men's and women's segment, respectively.

Exhibit 48: …12.5% CAGR in men's segment realisation…



Source: Company, ICICIdirect.com Research

Exhibit 49: …and 13.1% CAGR in women's segment realisations

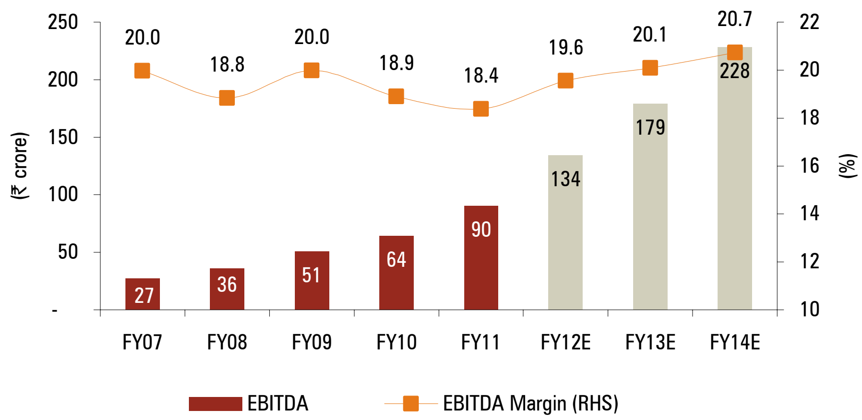


Source: Company, ICICIdirect.com Research

Operating margins are likely to increase by 230 bps from 18.4% in FY11 to 20.7% in FY14E. Factors like stabilised raw material prices and launch of premium and super premium products are likely to lead to this margin improvement

EBITDA margin to improve from 18.4% in FY11 to 20.7% in FY14E

Exhibit 50: EBITDA margin trend



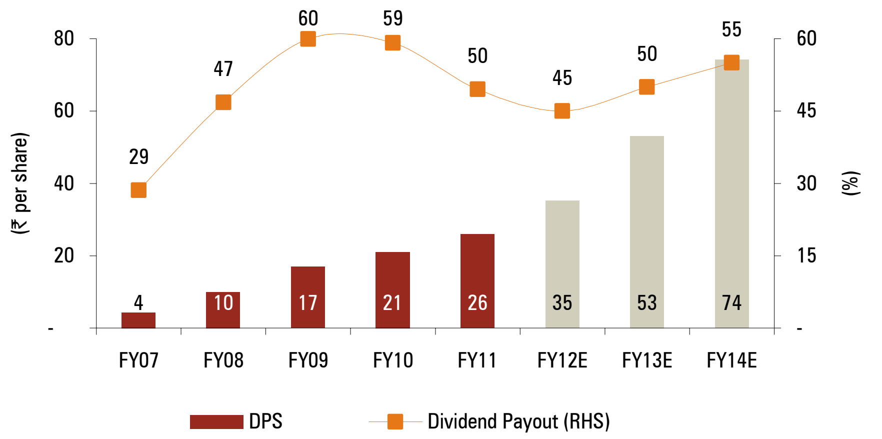
Source: Company, ICICIdirect.com Research

We expect the company's EBITDA margin to cross the 20% mark in FY13E. With easing of raw material prices and launch of products in the premium and super-premium category, we expect operating margins to improve by 230 bps from 18.4% in FY11 to 20.7% in FY14E.

Page has rewarded its shareholders consistently. The payout ratio has also improved significantly from 29% in FY07 to 50% in FY11

Healthy dividend payout

Exhibit 51: Page has consistently rewarded shareholders by maintaining a healthy payout ratio



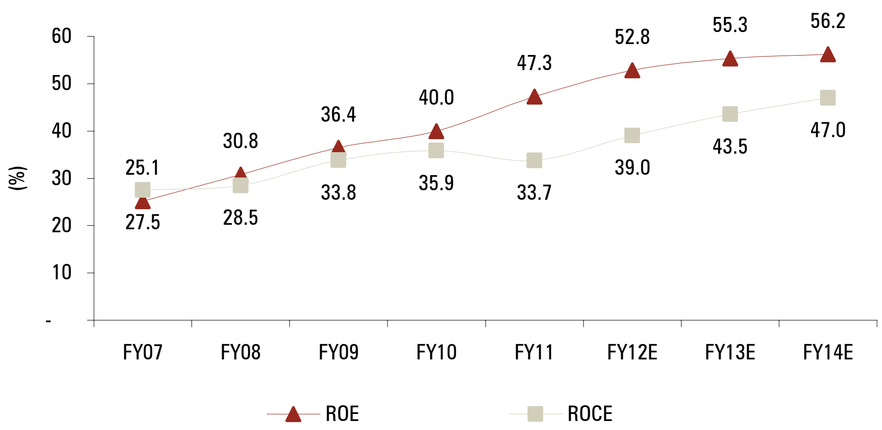
Source: Company, ICICIdirect.com Research

Page has a strong record of rewarding its shareholders by paying healthy dividends each year. The company's dividend payout ratio has increased from 29% in FY07 to 50% in FY11. We expect the company to maintain a payout in the range of 45-55%, going forward.

Considering the expansion in operating margins, the return ratios of the company are constantly improving

Improving return ratios

Exhibit 52: Return ratios



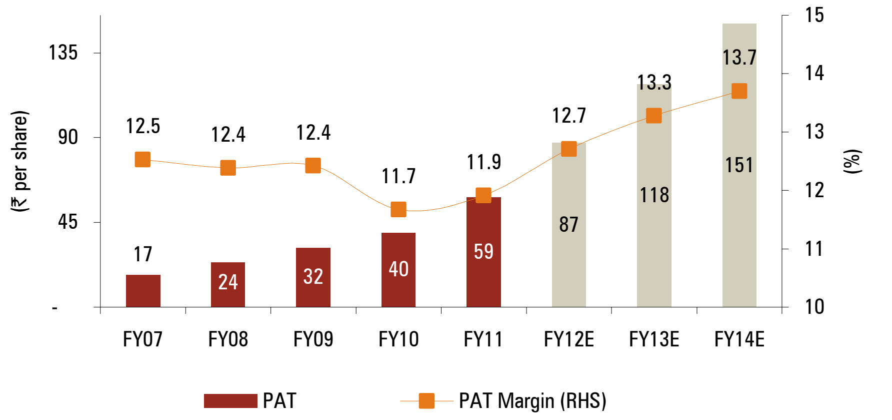
Source: Company, ICICIdirect.com Research

We expect return ratios to improve, going forward, on the back of an enhanced operating performance. While return on equity is expected to improve from 25.1% in FY11 to 56.2% in FY14E, the return on capital employed is likely to improve from 27.5% in FY11 to 47.0% in FY14E.

We expect the PAT to increase from ₹ 58.5 crore in FY11 to ₹ 150.6 crore in FY14E

PAT to grow at CAGR of 37.0% during FY11-14E

Exhibit 53: Net profit trend



Source: Company, ICICIdirect.com Research

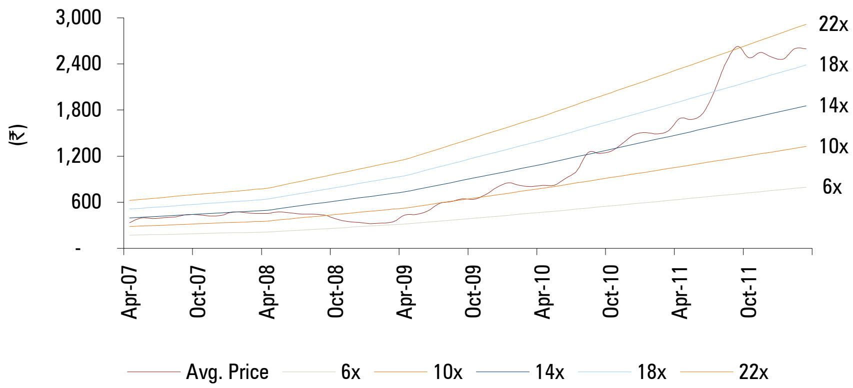
We expect the PAT to grow at a CAGR of 37.0% during FY11-14E. PAT growth during the next few years is likely to be higher than that achieved in the past due to expansion in the operating margins. Page's PAT grew at a CAGR of 36.2% during FY07-11. With full utilisation of expanded capacities and enhanced operating margins due to higher share of premium products, we expect PAT to grow from ₹ 58.5 crore in FY11 to ₹ 150.6 crore in FY14E.

Valuation

Considering the improving return ratios, enhanced operating margins and a topline CAGR of over 30% (despite a higher base) we have valued the stock at 23.0x FY14E EPS of ₹ 135.1 to arrive at a target price of ₹ 3,016. We are initiating coverage on Page Industries with a **BUY** rating. At the CMP, the stock is trading at 25.3x and 19.9x its FY13E and FY14E EPS of ₹ 106.2 and ₹ 135.1, respectively.

Considering the strong financials and robust revenue growth trajectory, Page has always traded at rich multiples. The growing exuberance in the Indian economy over the last few years and improving demographics of the nation have lent credence to the company's rich valuations.

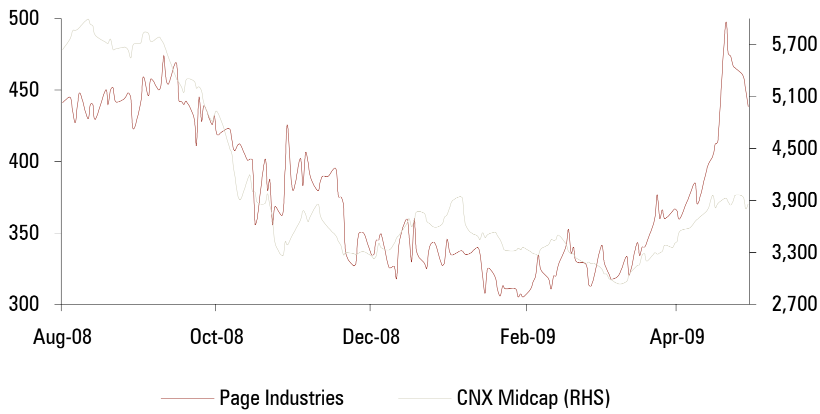
Exhibit 54: One year forward P/E band chart



Source: Company, ICICIdirect.com Research

Apart from the robust and consistent topline growth, the company has also consistently rewarded its shareholders. Due to this, as well as strong fundamentals, the stock had outperformed the Midcap Index during the steep fall in October 2008.

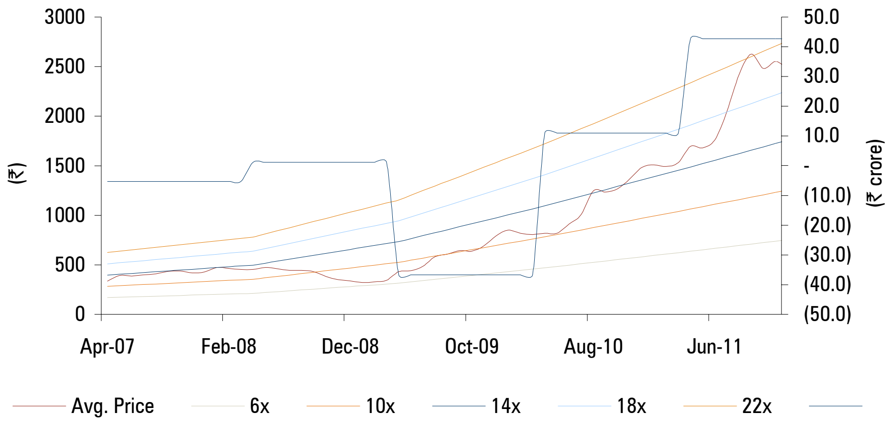
Exhibit 55: Page Industries vs. CNX Midcap Index



Source: Company, ICICIdirect.com Research

While the CNX Midcap index took a 30.5% hammering during August 2008 – April 2009, Page Industries remained flat (down 0.6%).

Exhibit 56: Markets reward free cash flow generating companies



Source: Company, ICICIdirect.com Research

It has been observed in the past that the market rewards a higher multiple in anticipation of an increase in free cash flows (FCF). Due to high capex, the company was unable to generate any free cash flows in FY11. Going forward, we expect the company to return to being free cash flows positive and, therefore, expect a multiple re-rating for the stock.

Financial Tables

Exhibit 57: Profit & loss account

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	254.7	339.4	491.6	686.0	892.0	1,099.6
% Growth	32.4	33.3	44.8	39.5	30.0	23.3
Other Income	6.4	6.4	12.1	17.1	21.9	23.6
Raw Materials	89.0	115.3	179.7	250.0	323.5	381.4
Royalty	12.5	16.8	24.3	34.0	44.2	54.4
Manufacturing Expenses	37.1	48.1	61.2	82.3	102.6	128.7
Employee Expenses	42.1	58.1	89.7	121.4	161.2	205.4
Sell. & Admin. Expenses	23.2	37.0	46.4	64.1	81.3	101.7
Total Exp.	203.8	275.2	401.2	551.8	712.8	871.6
% Growth	30.5	35.1	45.8	37.5	29.2	22.3
Operating Profit	50.9	64.2	90.4	134.2	179.2	228.0
Depreciation	7.3	9.0	9.8	12.2	14.5	16.7
Interest expense	3.1	3.0	5.2	8.1	8.6	8.6
PBT	46.9	58.6	87.4	131.0	178.0	226.3
Tax	15.2	18.9	29.2	43.8	59.5	75.7
Prior Period Items	0.0	0.1	(0.4)	-	-	-
Net Profit	31.6	39.6	58.5	87.2	118.5	150.6
% Growth	32.8	25.2	47.8	48.9	35.9	27.2
Equity	11.2	11.2	11.2	11.2	11.2	11.2
Dividend %	170.0	210.0	260.0	351.7	531.0	742.8
EPS	28.4	35.5	52.5	78.2	106.2	135.1

Source: Company, ICICIdirect.com Research

Exhibit 58: Balance sheet

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	11.2	11.2	11.2	11.2	11.2	11.2
Reserves & Surplus.	75.7	87.9	112.6	153.9	203.1	256.8
Secured Loans	41.9	44.8	100.0	116.7	126.7	137.4
Unsecured Loans	-	10.0	15.0	30.9	37.5	44.0
Deferrred Tax	1.7	2.0	2.6	3.9	5.1	6.9
Total Liabilities	130.4	155.8	241.4	316.5	383.5	456.2
Net Block	55.0	77.6	93.1	118.9	147.4	174.5
CWIP	11.8	4.9	7.4	14.4	16.0	9.6
Investments	5.2	3.0	3.0	5.8	6.6	7.9
Inventories	68.0	94.6	164.7	197.3	241.7	293.7
Sundry Debtors	17.0	20.5	25.8	39.5	46.4	54.2
Cash & Bank	10.3	3.0	2.6	4.8	4.1	7.7
Loans & Adv.	44.9	16.3	42.3	54.1	74.6	93.7
Current Assets	140.2	134.3	235.5	295.6	366.8	449.4
CL & Prov.	81.9	64.0	97.6	118.2	153.2	185.1
Net Current Assets	58.4	70.3	137.9	177.5	213.6	264.3
Total Assets	130.4	155.8	241.4	316.5	383.5	456.2

Source: Company, ICICIdirect.com Research

Exhibit 59: Cash flow statement

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Profit Before Tax	46.8	58.5	87.8	131.0	178.0	226.3
Depreciation	7.3	9.0	9.8	12.2	14.5	16.7
Interest Expense	2.8	2.5	4.6	8.1	8.6	8.6
Direct Tax Paid	(13.6)	(18.4)	(29.8)	(43.8)	(59.5)	(75.7)
(Profit)/Loss on sale of Investments	2.6	(0.3)	-	1.3	1.3	1.8
Interest / Dividend Income	(3.0)	(1.1)	(0.9)	-	-	-
Other Non Cash (Inc)/Exp	0.0	0.0	0.3	-	-	-
CF before change in WC	43.0	50.2	71.9	108.9	142.8	177.8
Inc./Dec. in WC	(11.6)	(20.5)	(72.0)	(37.4)	(36.8)	(47.0)
CF from operations	31.5	29.7	(0.2)	71.5	106.0	130.7
Pur. of Fix Assets (net)	(30.5)	(24.7)	(28.1)	(45.1)	(44.5)	(37.4)
Purchase of Investments (net)	24.8	2.3	-	(2.8)	(0.8)	(1.3)
Income from Inv	6.0	1.5	0.9	-	-	-
CF from Investing	0.2	(20.9)	(27.3)	(47.8)	(45.3)	(38.7)
Inc./(Dec.) in Debt	4.7	17.8	60.3	32.6	16.6	17.2
Inc./(Dec.) in Net worth	-	-	-	-	-	-
Others	(26.3)	(33.9)	(33.2)	(54.0)	(77.9)	(105.7)
CF from Financing	(21.6)	(16.1)	27.1	(21.5)	(61.3)	(88.5)
Opening Cash balance	0.2	10.3	3.0	2.6	4.8	4.1
Closing Cash balance	10.3	3.0	2.6	4.8	4.1	7.7

Source: Company, ICICIdirect.com Research

Exhibit 60: Key ratios

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Expenditure Break-up (%)						
Raw Material Expenses	43.7	41.9	44.8	45.3	45.4	43.8
Manufacturing Expenses	18.2	17.5	15.2	14.9	14.4	14.8
Personnel Expenses	20.6	21.1	22.4	22.0	22.6	23.6
Profitability Ratios (%)						
EBITDA Margin	20.0	18.9	18.4	19.6	20.1	20.7
PAT Margin	12.4	11.7	11.9	12.7	13.3	13.7
Per Share Data (₹)						
Revenue per share	228.3	304.3	440.7	615.0	799.7	985.9
EBITDA per share	45.6	57.5	81.0	120.3	160.7	204.4
EV per share	426.3	696.0	1,324.6	2,816.0	2,831.6	2,843.7
Book Value per share	77.8	88.8	111.0	148.0	192.1	240.2
Cash per share	9.2	2.6	2.3	4.3	3.7	6.9
EPS	28.4	35.5	52.5	78.2	106.2	135.1
Cash EPS	34.9	43.6	61.3	89.1	119.2	150.0
DPS	17.0	21.0	26.0	35.2	53.1	74.3
Return Ratios (%)						
RoNW	36.4	40.0	47.3	52.8	55.3	56.2
RoCE	33.8	35.9	33.7	39.0	43.5	47.0
RoIC	27.9	26.8	25.1	28.9	32.2	34.7

Source: Company, ICICIdirect.com Research

Exhibit 61: Key ratios

Financial Health Ratios	FY09	FY10	FY11	FY12E	FY13E	FY14E
Operating Cash flow (₹ crore)	31.5	29.8	(0.2)	71.5	106.0	130.7
Free Cash flow (₹ crore)	(5.4)	1.1	(36.7)	11.0	42.7	72.9
Capital Employed (₹ crore)	128.7	153.8	238.8	312.6	378.4	449.3
Debt to Equity (x)	0.5	0.6	0.9	0.9	0.8	0.7
Debt to Capital Employed (x)	0.3	0.4	0.5	0.5	0.4	0.4
Interest Coverage (x)	14.2	18.6	15.4	15.0	19.1	24.5
Debt to EBITDA (x)	0.8	0.9	1.3	1.1	0.9	0.8
DuPont Analysis (x)						
PAT / PBT	0.7	0.7	0.7	0.7	0.7	0.7
PBT / EBIT	1.1	1.1	1.1	1.1	1.1	1.1
EBIT / Net Sales	0.2	0.2	0.2	0.2	0.2	0.2
Net Sales / Total Assets	2.0	2.2	2.0	2.2	2.3	2.4
Total Assets / Networth	1.5	1.6	1.9	1.9	1.8	1.7
(YoY Growth %)						
Net Sales	32.4	33.3	44.8	39.5	30.0	23.3
EBITDA	40.5	26.1	40.9	48.5	33.6	27.2
Net Profit	32.8	25.2	47.8	48.9	35.9	27.2
Turnover Ratios						
Working Capital / Sales (x)	0.2	0.2	0.3	0.3	0.2	0.2
Inventory turnover (days)	89.8	87.4	96.3	105.0	98.9	97.5
Debtor turnover (days)	18.7	20.1	17.2	21.0	19.0	18.0
Creditor turnover (days)	65.5	61.7	56.0	58.0	57.0	55.0
Current Ratio (x)	1.7	2.1	2.4	2.5	2.4	2.4
Free Cash Flow (₹ crore)						
EBIT (post-tax)	29.4	37.4	53.6	81.2	109.7	140.6
Add: Depreciation	7.3	9.0	9.8	12.2	14.5	16.7
Less: Changes in working capital	11.6	20.5	72.0	37.4	36.8	47.0
Less: Capex	30.5	24.7	28.1	45.1	44.5	37.4
FCF	(5.4)	1.1	(36.7)	11.0	42.7	72.9
Valuation Ratios						
Price to earnings ratio (x)	14.0	18.3	51.2	34.4	25.3	19.9
EV / EBITDA (x)	9.3	12.1	16.3	23.4	17.6	13.9
EV / Sales (x)	1.9	2.3	3.0	4.6	3.5	2.9
Dividend Yield (%)	4.3	3.2	1.7	1.0	1.3	2.0
Price / BV (x)	5.1	7.3	24.2	18.2	14.0	11.2

Source: Company, ICICIdirect.com Research

March 29, 2012

Lovable Lingerie Limited (LOVLIN)

₹ 351

Upside potential priced in…

Lovable Lingerie (Lovable), a major player in the women's innerwear industry has a strong bouquet of brands and sub-brands under its fold catering to the women's premium and mid-premium segment. Presence in the fastest growing segment among the innerwear industry provides it an opportunity to grow at a rapid pace. Leveraging its strong brands and favourable industry dynamics like shift in consumer preference towards branded products and higher aspirational buying from women owing to increased PROPORTION of working women, we expect Lovable to outpace the industry growth.

Presence in fastest growing segment

The women's innerwear market is expected to outperform the Indian apparel industry growth (10.6%) and grow at a CAGR of 15% over 2009-2020E. Historically, Lovable has been consistently growing at a more rapid pace than the women's innerwear industry growth. We expect it to continue with the growth momentum, going ahead.

Financials set to improve

A strong brand bouquet and continuous expense on increasing brand awareness would enable Lovable to leverage the industry demand and register 24.0% revenue CAGR over FY11-FY14E to ₹ 198.4 crore. Improvement in EBITDA margin after FY12E would enable the company to report a 28.8% CAGR in net profit over FY11-14E to ₹ 30.1 crore leading to an improvement in RoCE from 12.8% in FY11 to 18.4% in FY14E.

Debt free status provides organic and inorganic growth opportunities

Lovable's debt free status would enable it to raise finance on favourable terms for financing either organic or inorganic growth in future. With robust cash generation and a debt free status, the company can scout for acquisitions in similar or newer related lucrative segments to enhance its product portfolio and cater to a larger segment of the apparel industry.

Valuations

We have valued Lovable at a 15% discount to Page Industries' valuation multiple (23.0x FY14E EPS) considering the lower return ratios and marginally lower operating margin. Based on 19.6x FY14E EPS of ₹ 17.9, we have arrived at a target price of ₹ 350. We are initiating coverage on Lovable Lingerie with a HOLD rating. At the CMP, the stock is trading at 25.2x and 19.6x its FY13E and FY14E EPS of ₹ 13.9 and ₹ 17.9, respectively.

Exhibit 62: Valuation Metrics

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales (₹ crore)	87.0	104.0	137.6	165.7	198.4
EBITDA (₹ crore)	16.1	19.5	23.9	30.1	37.9
PBT (₹ crore)	14.3	18.5	23.2	30.7	39.5
Net Profit (₹ crore)	10.0	14.1	17.6	23.4	30.1
EPS (₹)	14.4	8.4	10.5	13.9	17.9
PE (x)	-	41.9	33.4	25.2	19.6
PBV (x)	-	4.2	3.8	3.4	3.0
EV/EBITDA (x)	-	20.7	23.5	18.3	14.2
ROCE (%)	60.1	12.8	14.4	16.5	18.4
RONW (%)	41.2	10.0	11.4	13.5	15.4

Source: Company, ICICIdirect.com Research

Rating Matrix

Rating	:	Hold
Target	:	₹ 350
Target Period	:	12 months
Potential Upside	:	0 %

YoY Growth (%)

	FY11	FY12E	FY13E	FY14E
Net Sales	19.6	32.3	20.4	19.7
EBITDA	20.6	22.7	26.0	25.8
Net Profit	40.3	25.2	32.4	28.7

Current & target multiple

	FY11	FY12E	FY13E	FY14E
PE	41.9	33.4	25.2	19.6
Target PE	41.7	33.3	25.2	19.6
EV/EBITDA	20.7	23.5	18.3	14.2
Target EV/EBITDA	29.5	23.5	18.2	14.1
Price/BV	4.2	3.8	3.4	3.0

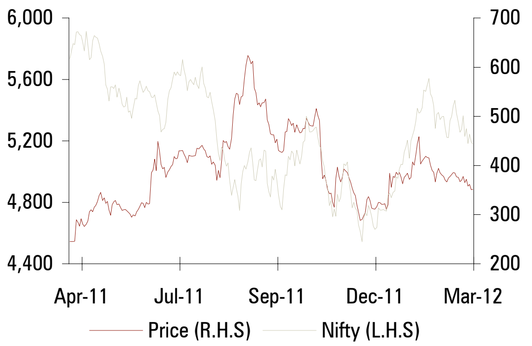
Stock Data

Bloomberg/Reuters code	LLL IN/ LOVA.BO
Sensex	17,059
Average volume	712,214
Market Capitalisation	₹ 590 crore
EV	₹ 537 crore
52 week H/L	₹637 / 242
Equity capital	₹ 16.8 crore
Face value	₹ 10
Promoter's stake (%)	67.0

Comparative return matrix (%)

Returns (%)	1m	3m	6m	12m
Page Industries	6.9	10.3	4.7	67.2
Lovable Lingerie	(9.3)	11.3	(24.6)	38.8
Rupa & Company	-	(2.0)	(7.7)	NA

Price movement



Analyst's name

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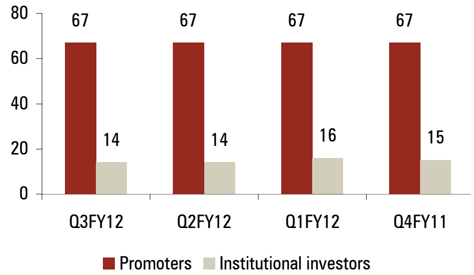
Shareholding pattern (Q3FY12)

Shareholder	Holding (%)
Promoters	67.0
Institutional Investors	14.3
General Public	18.8

Institutional holding trend (%)



Company background

Lovable Lingerie Ltd was incorporated in 1987. The company is in the business of manufacturing and selling women's innerwear products. Promoted by L Jaipal Reddy, the company is now managed by his son L Vinay Reddy. The company's product portfolio comprises brassieres, panties, slips/camisoles, home-wear, shapewear, foundation garments and sleepwear products. In December 1995, the company licensed the brand 'Lovable' from Lovable World Trading Company, US.

In December 2000, the company acquired the 'Lovable' brand from the US company on an exclusive basis for India, Nepal, Sikkim and Bhutan. Further, in March 2004, as a part of the company's growth strategy it acquired the 'Daisy Dee' brand from Maxwell Industries. It also acquired the brand 'College Style' from Levitus Trading Ltd, Hong Kong in March 2009, to cater to the youth.

'Lovable' and 'Daisy Dee' are the company's flagship brands. While Lovable caters to the premium segment, Daisy Dee caters to the mid segment.

The company has four manufacturing units, three of which are located in Bengaluru and one in Uttarakhand. As of FY11, the company's Bengaluru plants have an installed capacity of 60 lakh pieces per annum and the same is likely to increase to 85 lakh pieces per annum by H1FY13E (through addition of a new plant at Uttarahalli Hobli, Bengaluru). The manufacturing unit at Roorkee, Uttarakhand commenced operations in February 2010 and has an installed capacity of 7.5 lakh pieces per annum. All the company's plants are set up as per specifications laid out by Lovable World Trading Company, US.

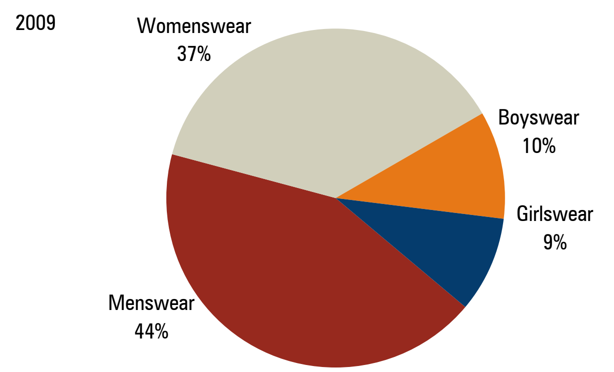
The company has adopted the concessionaire retailing model to market its products. As per this model, the company acquires retail space in leading retail outlets like large format stores, department stores, etc. In this dedicated retail space, the company displays its products. Unlike a multi-brand display format, here the space stocks only the company's products and is manned by the company's sales representative. The company has a presence in over 130 outlets like Westside, Shoppers Stop, Lifestyle, etc. all over India. To service these outlets, the company has a distribution network of five branches, 103 distributors, 1,425 direct dealers and over 7,500 multi-brand outlets.

Investment Rationale

Presence in fastest growing segments

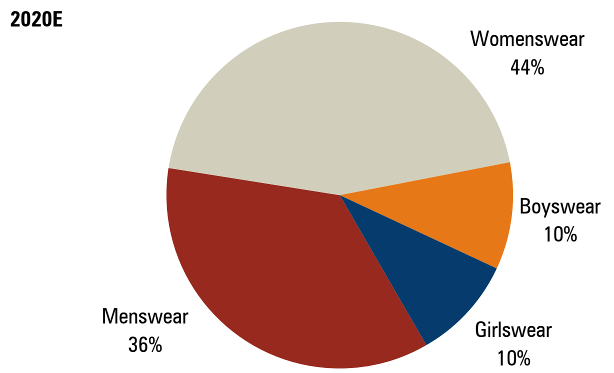
The Indian apparel market is expected to grow at a CAGR of 10.6% during 2009-2020E to ₹ 4,700 billion. During the same period, the innerwear segment is expected to grow faster at a CAGR of 13.2%.

Exhibit 63: Indian apparel market - 2009



Source: Images F&R Research, ICICIdirect.com Research

Exhibit 64: Indian apparel market - 2020E

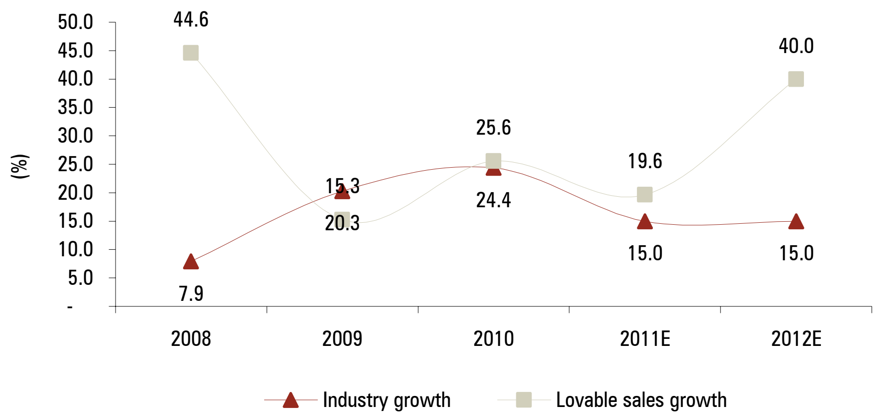


Source: Images F&R Research, ICICIdirect.com Research

Lovable is one of the oldest players in the women's innerwear segment. Having been in this segment for long, the company understands women's buying habits, tastes and preferences. Going forward, factors like increasing number of working women, along with increased awareness about better fits, quality, colours and styling as well as an openness to indulge in innerwear apparel will lead to strong growth in the women's innerwear segment.

Being one of the oldest players in the female innerwear segment, Lovable understands women's buying habits, tastes and preferences. A shift in Indian demographics augurs well for Lovable as its longstanding presence in this segment will give it an edge over the other players in this segment

Exhibit 65: Lovable's topline growth vs. women's innerwear industry growth



Source: Images F&R Research, Company, ICICIdirect.com Research

As witnessed in the chart above, Lovable has consistently grown above the industry rate of growth. Going forward also, we expect Lovable to grow faster than the industry. While the women's innerwear segment is expected to grow at a CAGR of 15.0% during 2009-20E, we expect Lovable's revenues to grow at a CAGR of 24.0% during FY11-14E.

The company has created various sub-brands under its two flagship brands – Lovable and Daisy Dee. While Lovable caters to the premium segment, Daisy Dee has been created for the mid-segment. With a well established brand image, the company is in a position to leverage these brands to expand its product portfolio going forward.

Strong brand portfolio

Over the years, Lovable has created a wide-ranging portfolio of brands across various sub-segments. With a wide array of offerings, the company caters to customers from all segments. Under its two flagship brands – Lovable and Daisy Dee, the company has created a host of sub-brands and differentiated products and styles to differentiate one segment from the other. While Lovable caters to the premium segment, Daisy Dee has been created for the mid-segment. The company has created over 50 styles under the Lovable category and a product range of over 100 styles under the Daisy Dee brand. Going forward, it can leverage this strong brand portfolio to expand its product offerings.

Exhibit 66: Comprehensive brand portfolio

Brand	Segment	Sub-brands
Lovable	Premium	Tease, Cotton Essensuals, Encircle, Pure Luxury, Fiona, All Dal Long, Cross Fit, Spcie Collection, Momeex, Activa, Passion
Daisy Dee	Mid	College Style, Lolita, Madonna, Temptress, Viva, Dazzle, Superstar, Styla, Enchantic, La Bella, Fiesta, Mona Lisa, Lopez, Sensation

Source: Company, ICICIdirect.com Research

Product extensions to further aid revenue growth

⇒ Lovable has also started widening its product portfolio by extending the Lovable brand into segments like sleepwear and home-wear under the 'Leisure' sub-brand

⇒ Similarly, it has launched its 'Cotton Essensuals' brand to exploit the potential of elegant cotton lingerie

Focus on the super-premium category to aid topline growth

Entry into the super-premium segment through a joint venture with Lifestyle Galleries (LGL) will augur well for the company's profitability

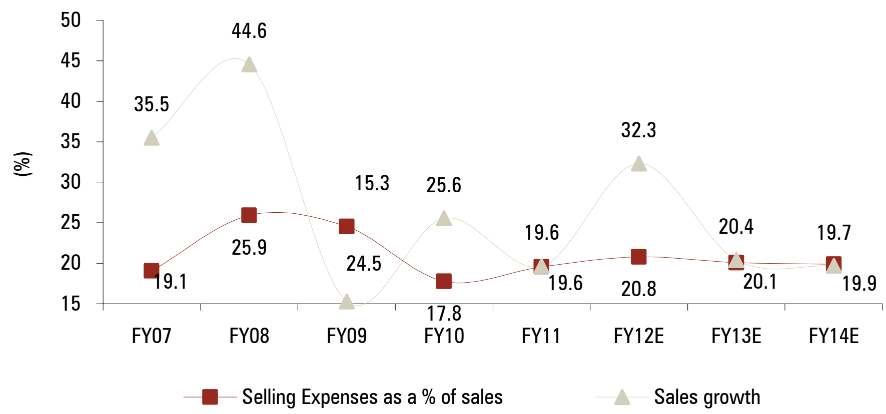
Lovable has entered into a joint venture (90:10) with Lifestyle Galleries (LGL), a London based company. Through the JV named Lovable Lifestyles Pvt Ltd (Lovable Lifestyles), it plans to manufacture and market super-premium products in India, from its partner's range. All products for both women and men will be launched under the 'London Calling' brand in India and other licensed territories. Lovable has paid a consideration of ₹ 25 crore for the same. LGL has agreed to license its know-how and trademark to Lovable. Over and above this, LGL has agreed to provide brand assets including franchisees, imagery instructions, product styling and range structure direction, packing and merchandising guidelines, retail store architectural design structure, technical developments, support in manufacturing assistance and training to Lovable Lifestyles, as and when necessary.

Lovable Lifestyles will leverage on Lovable's distribution network, consumer knowledge and launch lifestyle product lines in the categories and services of fashion apparel. Complete product lines that are developed in the United Kingdom by Lifestyle Galleries would also be made available to Lovable Lifestyle. We believe entry into the super-premium segment will augur well for the company's profitability.

While revenues increased at a CAGR of 25.8% during FY07-11, the advertising and promotional spends increased at a CAGR of 26.6%.

Higher promotional spends to increase visibility

Exhibit 67: Company's promotional spends yield positive results



Source: Company, ICICIdirect.com Research

Over the years, the company has consistently spent money towards spreading its product awareness and creating a brand value. This has yielded positive results, as is evident from the chart above. While revenues increased at a CAGR of 25.8% during FY07-11, the advertising and promotional spends increased by a CAGR of 26.6%. Going forward also, the company plans to spend ~18-20% of its revenues towards advertising and promotions.

The company plans to sell its products in overseas markets that are similar to the Indian markets, which will further aid topline growth

Foray into exports to aid topline growth

Going forward, Lovable plans to sell its products overseas. It holds the rights to market the products in Nepal and Bhutan, other than India. The company also plans to export its products to Sri Lanka, UAE and Bangladesh to enhance its geographic reach. Hitherto, we have not factored the same into our estimates. Any positive developments on these fronts will lead to an upward revision of our estimates.

Going forward, as the company launches new products, it will be able to leverage on its strong distribution network to market them

Enhancing distribution network to boost revenues

The company's revenue growth is driven by new changing demographics leading to new customers entering the target audience and also by the customer's willingness to move up to the higher segment. In order to cater to new customers, the company needs to continuously enhance its retail base and distribution network. During its initial public offering in March 2011, part of the funds raised was to be utilised towards setting up exclusive brand outlets and also for setting up retail modules (for shop in shops). The company currently has a strong distribution network comprising five branches, 103 distributors, 1,425 direct dealers and over 7,500 multi-brand outlets. Increase in its distribution reach and visibility will enable the company to further grow its topline. Also, it will be able to leverage on this strong network to market its newly launched products.

Any form of inorganic growth will enable the company to get access to newer products and/or diversify into newer markets both domestic and international

Inorganic growth: The added surprise

Over the years, Lovable has grown in size through acquisition of brands – Lovable (bought out from Lovable World Trading Company, US), Daisy Dee (acquired from Maxwell Industries) and College Style (acquired from Levitus Trading Limited, Hong Kong). Going forward also, the company is open to acquiring or partnering with any company in the innerwear segment. This move will enable the company to access newer product segments and/or diversify into newer markets that have a large growth potential.

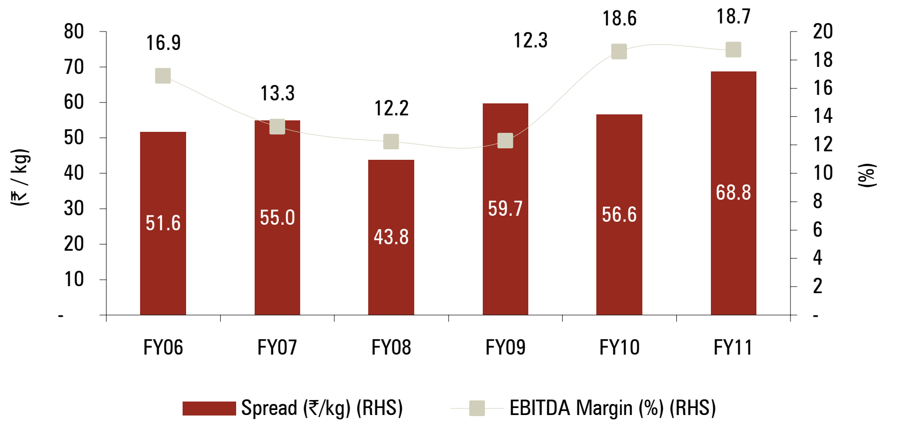
Risk & concerns

Any adverse movement in cotton (key raw material) prices

Cotton and cotton related products account for 60% of the company's raw material costs. Any adverse movement in cotton prices can impact the profitability of the company

Over 60% of the company's raw material costs are related to cotton and cotton yarn. An inability to pass on the impact of the increase in raw material prices will have an adverse impact on the company's profitability. Also, too many price hikes will take a toll on the volume growth prospects of the company.

Exhibit 68: Cotton and cotton yarn spread and impact on operating margin

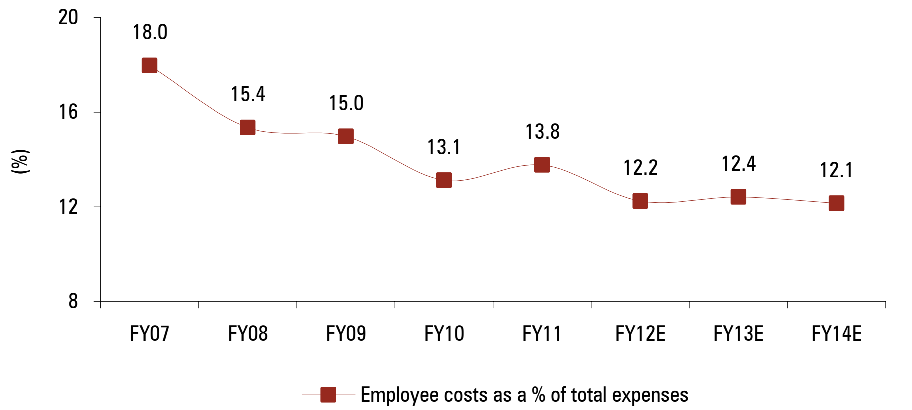


Source: Company, ICICIdirect.com Research

Labour intensive nature of industry

Textile being a labour intensive business is highly dependent on the availability of manpower for an uninterrupted performance of the business

Exhibit 69: Labour costs as a percentage of total expenditure



Source: Company, ICICIdirect.com Research

The textile business, at large, is a highly labour intensive business. With more and more job opportunities being created for the labour class (with the advent of the mall culture) the lack of availability of man power may pose a threat to the functioning of the business. Also, the company will need to adhere to labour laws laid down by the government. Any revision of salary structure, etc will also weigh on the operational performance of the company.

Any slowdown in the economy for an extended period will affect the financial performance of the company

Economic slowdown to affect demand

The Indian consumption story has evolved and emerged as an attractive opportunity due to the high economic growth. The improving demographics of the Indian economy are also a function of robust economic growth. Any slowdown (long lasting) in the economy will lead to lower discretionary spending and will, thereby, impact the financial performance of the company.

Large number of choices (brands) has led to lower consumer stickiness

Brand loyalty

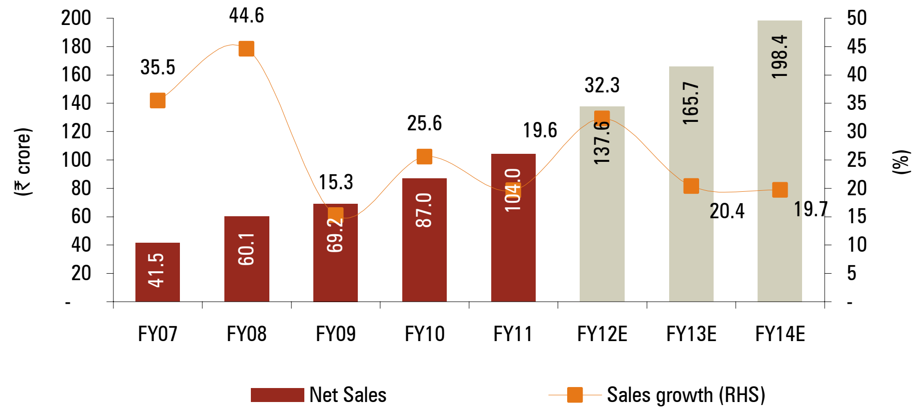
Today, a host of domestic and international players are flocking to the Indian markets on the back of the optimism in the Indian consumption story. Since consumers have a lot of variety to pick and chose from, customer stickiness is typically low. With the human tendency to try new products or buy any brand that offers a discount, brand loyalty is considerably low in this industry. If more and more consumers switch products very easily that is likely to lead to a loss in market share for Lovable.

Financials

Sales to grow at a CAGR of 24.0% during FY11-14E

Lovable's revenues are expected to increase at a CAGR of 24.0% during FY11-14E to ₹ 198.4 crore on the back of 12.7% volume growth and 12.2% realization growth

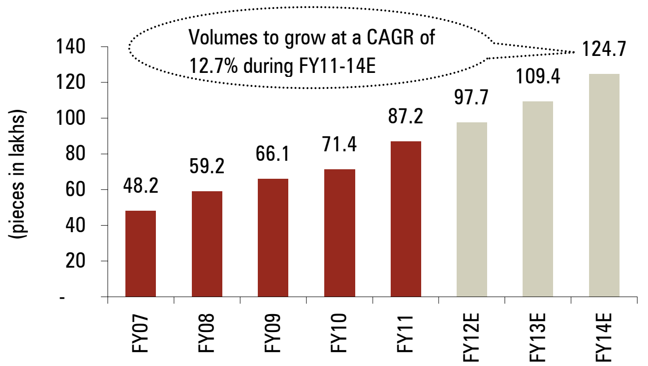
Exhibit 70: Topline expected to grow at a CAGR of 24.0% during FY11-14E…



Source: Company, ICICIdirect.com Research

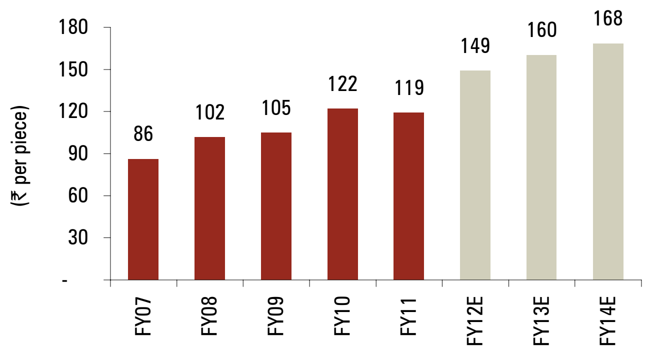
We expect revenues to increase at a CAGR of 24.0% during FY11-14E, after having grown at 25.8% during FY07-11. Lovable's revenues are likely to touch ₹ 198.4 crore on the back of equal growth in both realisations and volumes.

Exhibit 71: …led by 12.7% CAGR in volumes…



Source: Company, ICICIdirect.com Research

Exhibit 72: …and 12.2% increase in realisations



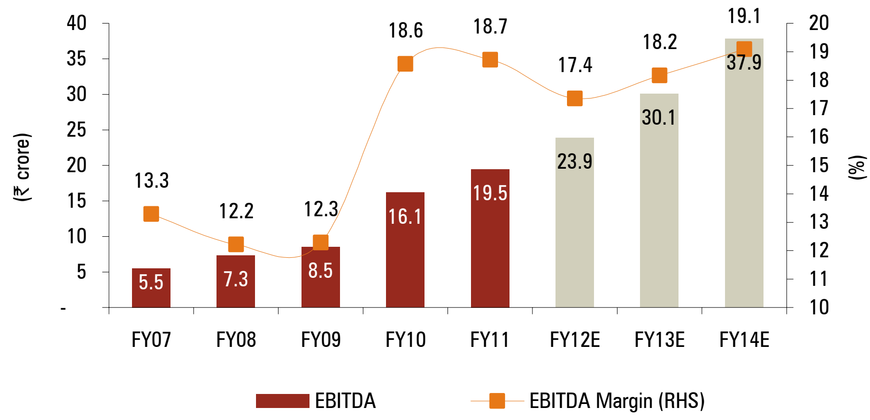
Source: Company, ICICIdirect.com Research

We expect volumes to increase on the back of the growth in retail presence and also continuous launch of new products. The company follows a policy of adding five or six new products each year and simultaneously rolling back some old/obsolete products. Consequently, we expect volumes to increase from 87.2 lakh pieces in FY11 to 124.7 lakh pieces in FY14E. Realisations are also expected to increase at a CAGR of 12.2% during FY11-14E from ₹ 119 per piece to ₹ 168 per piece. The launch of more products in the premium and super-premium segment is also likely to the aid realisation growth.

We expect margins to bounce back to 18-19% by FY14E led by (a) stabilisation in raw material prices; (b) launch of premium and super-premium products and (c) marginally lower advertising expenses

EBITDA margin to improve from FY12E levels

Exhibit 73: EBITDA margin trend



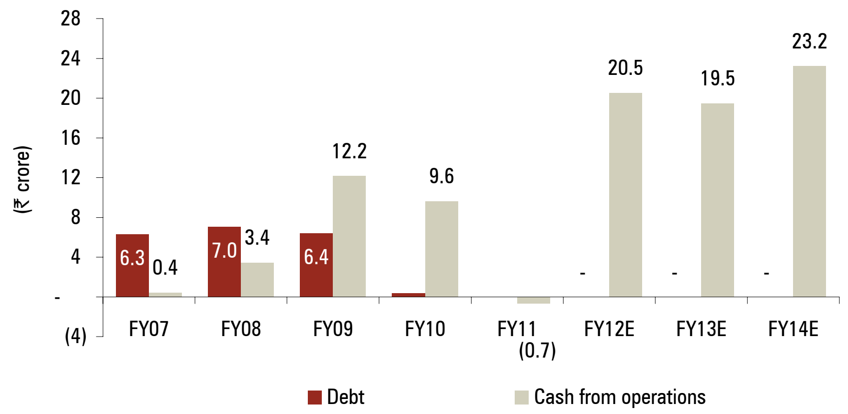
Source: Company, ICICIdirect.com Research

We expect the company's EBITDA margin to be maintained in the range of 18–20%. While margins are likely to dip in FY12E on the back of raw material cost pressure, imposition of excise duty and sales promotions, we expect margins to bounce back to 18-19% by FY14E led by (a) stabilisation in raw material prices; (b) launch of premium and super-premium products and (c) marginally lower advertising expenses.

The company (which historically had low debt levels) has managed to attain a debt-free status in FY11 on the back of strong cash flow generation

Debt free status to enable leveraging for any major capex or acquisitions

Exhibit 74: Debt free status provides comfort for fund raising in the future



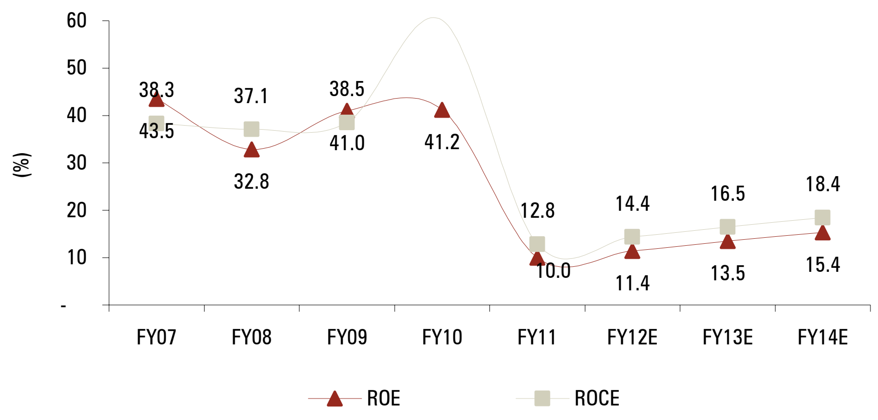
Source: Company, ICICIdirect.com Research

On the back of robust cash generation, the company has completely shaved off the debt on books. Going forward, if the company plans any major capex it will be able to raise funds easily. Similarly, if it identifies any company that can be acquired, raising funds will not be a problem.

After the dilution in FY11 (due to IPO) we expect the company's return ratios to improve on the back of a better operating performance

Improving return ratios

Exhibit 75: Return ratios trend



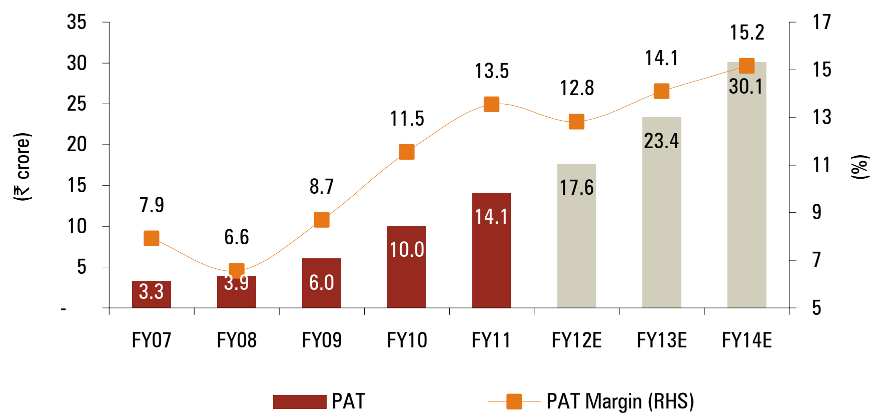
Source: Company, ICICIdirect.com Research

We expect return ratios to improve, going forward, on the back of an enhanced operating performance. Also, with the utilisation of IPO proceeds, we expect to witness an improvement in the return ratios. While return on equity is expected to improve from 10.0% in FY11 to 15.4% in FY14E, the return on capital employed is likely to improve from 12.8% in FY11 to 18.4% in FY14E.

PAT is likely to double from ₹ 14.1 crore in FY11 to ₹ 30.1 crore in FY14E on the back of enhanced operational performance and negligible interest outgo

PAT to grow at CAGR of 28.8% during FY11-14E

Exhibit 76: Net profit trend



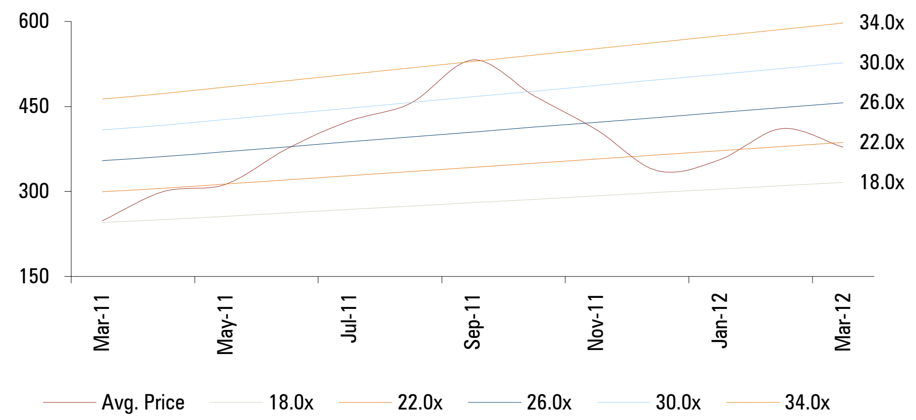
Source: Company, ICICIdirect.com Research

After growing at a CAGR of 43.8% during FY07-11 (albeit on a small base), we expect Lovable's PAT to grow at a CAGR of 28.8% during FY11-14E. Launch of premium and sub-premium category products, which will yield positive results on the operational performance and the debt free status of the company, will aid this growth. We expect the profit after taxes to rise from ₹ 14.1 crore in FY11 to ₹ 30.1 crore in FY14E.

Valuation

We have valued Lovable at a 15% discount to Page Industries' valuation multiple considering the lower return ratios and marginally lower operating margin. We have arrived at a target price of ₹ 350 (based on 19.6x FY14E EPS of ₹ 17.9. We are initiating coverage on Lovable Lingerie with a **HOLD** rating. At the CMP, the stock is trading at 25.2x and 19.6x its FY13E and FY14E EPS of ₹ 13.9 and ₹ 17.9, respectively.

Exhibit 77: Lovable Lingerie one year forward P/E chart



Source: Company, ICICIdirect.com Research

Exhibit 78: Free cash flow generation

(₹ crore)	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
EBIT (post tax)	4.2	7.1	10.4	13.8	17.0	21.7	27.4
Add: Depreciation	0.3	0.4	1.3	1.4	1.6	1.7	1.8
Less: Changes in working capital	(0.1)	(7.5)	4.7	14.6	(0.8)	5.9	8.9
Less: Capex	0.7	10.0	0.9	1.5	1.0	1.1	1.2
Free Cash Flow	3.9	5.0	6.1	(1.0)	18.4	16.3	19.1

Source: Company, ICICIdirect.com Research

After growing at over 30% on a small base (FY07 and FY08), Lovable has stabilised a sales growth rate of ~20%. Its presence in the women's segment is an added positive as the women's segment is likely to outperform the broad industry growth and also the men's segment growth. However, we feel the positives are factored in the stock.

Financial Tables

Exhibit 79: Profit & loss account

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	69.2	87.0	104.0	137.6	165.7	198.4
% Growth	15.3	25.6	19.6	32.3	20.4	19.7
Other Income	0.1	0.1	0.9	1.4	2.8	3.9
Raw Materials	28.6	43.2	49.2	66.8	80.1	94.0
Manufacturing & Admin Exp.	6.0	2.8	3.3	4.4	5.4	7.5
Employee Expenses	9.1	9.3	11.6	13.9	16.8	19.5
Sell. & Dsit. Expenses	17.0	15.4	20.3	28.6	33.3	39.5
Total Exp.	60.7	70.7	84.5	113.8	135.6	160.5
% Growth	15.2	16.6	19.4	34.5	19.2	18.4
Operating Profit	8.5	16.2	19.5	23.9	30.1	37.9
Depreciation	0.4	1.3	1.4	1.6	1.7	1.8
Interest expense	1.4	0.9	0.5	0.6	0.5	0.5
PBT	6.9	14.1	18.6	23.2	30.7	39.5
Tax	0.8	4.2	4.4	5.5	7.3	9.4
Prior Period Items	-	0.3	-	-	-	-
Net Profit	6.0	10.0	14.1	17.6	23.4	30.1
% Growth	52.9	66.8	40.3	25.2	32.4	28.7
Equity	1.5	7.5	16.8	16.8	16.8	16.8
Dividend %	10.0	10.0	15.0	21.0	27.8	35.8
EPS	19.1	14.4	8.4	10.5	13.9	17.9

Source: Company, ICICIdirect.com Research

Exhibit 80: Balance sheet

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	1.5	7.5	16.8	16.8	16.8	16.8
Reserves & Surplus.	13.2	16.9	124.4	137.9	155.8	178.9
Secured Loans	3.7	0.3	-	-	-	-
Unsecured Loans	2.7	0.0	-	-	-	-
Deferrred Tax	0.5	1.1	1.3	1.5	1.6	1.9
Total Liabilities	21.5	25.8	142.6	156.2	174.3	197.6
Net Block	13.2	12.8	12.9	12.4	11.9	11.3
CWIP	-	-	-	-	-	-
Investments	1.0	2.0	93.1	95.3	96.2	97.5
Inventories	13.5	13.1	22.4	25.6	30.0	35.9
Sundry Debtors	8.7	13.6	10.6	16.6	20.9	24.5
Cash & Bank	2.0	2.7	14.3	27.5	39.3	53.0
Loans & Adv.	9.1	2.3	3.7	5.5	6.5	9.7
Current Assets	33.4	31.7	51.0	75.3	96.7	123.0
CL & Prov.	26.0	20.9	14.8	26.8	30.4	34.2
Net Current Assets	7.3	10.8	36.2	48.5	66.2	88.8
Deferred Tax Assets	-	0.2	0.4	-	-	-
Total Assets	21.5	25.8	142.6	156.2	174.3	197.6

Source: Company, ICICIdirect.com Research

Exhibit 81: Cash flow statement

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Profit Before Tax	4.3	14.3	18.5	23.2	30.7	39.5
Depreciation	0.4	1.3	1.4	1.6	1.7	1.8
Interest Expense	1.4	0.9	0.5	0.6	0.5	0.5
Direct Tax Paid	(1.3)	(2.1)	(5.6)	(5.5)	(7.3)	(9.4)
(Profit)/Loss on sale of Investments	-	(0.0)	0.0	-	-	-
Interest / Dividend Income	(0.1)	(0.0)	(0.1)	-	-	-
Other Non Cash (Inc)/Exp	-	(0.1)	(0.9)	-	-	-
CF before change in WC	4.7	14.3	13.9	19.8	25.5	32.3
Inc./Dec. in WC	7.5	(4.7)	(14.6)	0.8	(5.9)	(8.9)
CF from operations	12.2	9.6	(0.7)	20.6	19.6	23.4
Pur. of Fix Assets (net)	(10.2)	(0.7)	(1.5)	(0.4)	(0.8)	(0.7)
Purchase of Investments (net)	-	(1.0)	(91.1)	(2.3)	(0.9)	(1.3)
Income from Inv	0.1	0.1	0.9	-	-	-
CF from Investing	(10.2)	(1.5)	(91.7)	(2.6)	(1.7)	(2.0)
Inc./(Dec.) in Debt	(0.7)	(6.1)	(0.3)	-	-	-
Inc./(Dec.) in Net worth	-	-	105.7	-	-	-
Others	(1.5)	(1.1)	(1.4)	(4.8)	(6.2)	(7.8)
CF from Financing	(2.2)	(7.2)	104.0	(4.8)	(6.2)	(7.8)
Opening Cash balance	1.9	1.6	2.6	14.2	27.4	39.2
FD not considered as cash eq.	0.4	0.1	0.1	0.0	0.1	0.1
Closing Cash balance	2.0	2.7	14.3	27.5	39.3	53.0

Source: Company, ICICIdirect.com Research

Exhibit 82: Key ratios

Expenditure Break-up (%)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Raw Material Expenses	47.1	61.0	58.2	58.7	59.0	58.6
Manufacturing Expenses	10.0	3.9	3.9	3.9	4.0	4.7
Personnel Expenses	15.0	13.1	13.8	12.2	12.4	12.1
Profitability Ratios (%)						
EBITDA Margin	12.3	18.6	18.7	17.4	18.2	19.1
PAT Margin	8.7	11.5	13.5	12.8	14.1	15.2
Per Share Data (₹)						
Revenue per share	461.6	115.9	61.9	81.9	98.6	118.1
EBITDA per share	56.7	21.5	11.6	14.2	17.9	22.5
EV per share	-	-	239.6	334.7	327.6	319.5
Book Value per share	97.8	32.5	84.1	92.1	102.8	116.5
Cash per share	13.5	3.6	8.5	16.4	23.4	31.6
EPS	19.1	14.4	8.4	10.5	13.9	17.9
Cash EPS	42.8	15.1	9.2	11.4	14.9	19.0
DPS	-	-	1.5	2.1	2.8	3.6
Return Ratios (%)						
RoNW	41.0	41.2	10.0	11.4	13.5	15.4
RoCE	38.5	60.1	12.8	14.4	16.5	18.4
RoIC	33.4	50.2	41.6	55.3	63.0	66.6

Source: Company, ICICIdirect.com Research

Exhibit 83: Key ratios

Financial Health Ratios	FY09	FY10	FY11	FY12E	FY13E	FY14E
Operating Cash flow (₹ crore)	12.2	9.6	(0.7)	20.5	19.5	23.2
Free Cash flow (₹ crore)	5.0	6.1	(1.0)	18.4	16.3	19.1
Capital Employed (₹ crore)	21.1	24.7	141.2	154.7	172.6	195.7
Debt to Equity (x)	0.4	0.0	-	-	-	-
Debt to Capital Employed (x)	0.3	0.0	-	-	-	-
Interest Coverage (x)	5.9	15.9	33.8	40.5	57.2	75.7
Debt to EBITDA (x)	0.8	0.0	-	-	-	-
DuPont Analysis (x)						
PAT / PBT	0.9	0.7	0.8	0.8	0.8	0.8
PBT / EBIT	0.8	1.0	1.0	1.0	1.1	1.1
EBIT / Net Sales	0.1	0.2	0.2	0.2	0.2	0.2
Net Sales / Total Assets	3.2	3.4	0.7	0.9	1.0	1.0
Total Assets / Networth	1.5	1.1	1.0	1.0	1.0	1.0
(YoY Growth %)						
Net Sales	15.3	25.6	19.6	32.3	20.4	19.7
EBITDA	15.9	89.8	20.6	22.7	26.0	25.8
Net Profit	(31.1)	277.0	40.3	25.2	32.4	28.7
Turnover Ratios						
Working Capital / Sales (x)	0.1	0.1	0.2	0.2	0.2	0.2
Inventory turnover (days)	79.4	55.8	62.1	68.0	66.0	66.0
Debtor turnover (days)	39.0	46.9	42.5	44.0	46.0	45.0
Creditor turnover (days)	101.8	81.9	36.0	60.0	55.0	50.0
Current Ratio (x)	1.3	1.5	3.4	2.8	3.2	3.6
Free Cash Flow (₹ crore)						
EBIT (post-tax)	7.1	10.4	13.8	17.0	21.7	27.4
Add: Depreciation	0.4	1.3	1.4	1.6	1.7	1.8
Less: Changes in working capital	(7.5)	4.7	14.6	(0.8)	5.9	8.9
Less: Capex	10.0	0.9	1.5	1.0	1.1	1.2
FCF	5.0	6.1	(1.0)	18.4	16.3	19.1
Valuation Ratios						
Price to earnings ratio (x)	-	-	41.9	33.4	25.2	19.6
EV / EBITDA (x)	-	-	20.7	23.5	18.3	14.2
EV / Sales (x)	-	-	3.9	4.1	3.3	2.7
Dividend Yield (%)	-	-	-	0.4	0.6	0.8
Price / BV (x)	-	-	4.2	3.8	3.4	3.0

Source: Company, ICICIdirect.com Research

March 29, 2012

Rupa & Company Limited (RUPACO)

₹ 141

Poised for growth on inherent brand strength...

Rupa & Company (Rupa), one of India's oldest innerwear players, is well poised for growth on the back of multiple factors ranging from increasing share of premium products to increasing retail presence, to name a few. With a strong brand portfolio (all owned by the company), Rupa has been a leading player in the mid-level innerwear segment. On the back of economic exuberance, the company is increasing its presence in the super premium segment as well. The share of super premium products in the overall mix has increased from 1% in FY08 to 7% in FY11, thereby leading to an operating margin expansion of 227 bps to 10.6% during the period. Going forward, an increased retail presence will further increase the visibility of the brand.

Presence across all segments with self-owned brand portfolio

Apart from its flagship brands – Rupa and Euro — the company has created various brands. As on date, the company manages over 2000 stock keeping units comprising different products ranging from men's and women's innerwear to casual and thermal wear. Going forward, the company can leverage these brands to introduce new products, either under the same brand or in the form of brand extensions.

Retail expansion to fuel topline growth

The company plans to expand its retail presence through an asset light franchising model. This will not only ensure lesser burden on the balance sheet but also boost the topline growth for the company. We expect sales to increase at a CAGR of 13.4% during FY11-14E.

Foray into premium segments to boost operating margin

Rupa has gradually increased the share of super-premium products to 7% of sales in FY11. Consequently, the EBITDA margin has also increased from 8.3% in FY08 to 10.6% in FY11. With increasing share of premium and super premium products and stabilising raw material prices, we expect operating margins to further increase to 12.5% by FY14E.

Valuations

At the CMP, the stock is trading at 22.7x and 18.0x FY13E and FY14E EPS of ₹ 6.3 and ₹ 7.9, respectively. Considering the growth potential in earnings due to the retail expansion and improving financials, the stock is trading in line with its peers in this segment.

Exhibit 84: Valuation Metrics

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales (₹ crore)	532.5	650.0	728.1	835.0	948.6
EBITDA (₹ crore)	44.5	68.6	85.0	98.7	118.3
PBT (₹ crore)	38.5	50.5	60.2	73.8	93.1
Net Profit (₹ crore)	25.2	33.7	40.2	49.3	62.1
EPS (₹)	3.2	4.2	5.0	6.2	7.8
PE (x)	-	33.2	27.8	22.7	18.0
PBV (x)	-	6.7	5.7	4.8	4.1
EV/EBITDA (x)	27.8	18.9	15.4	13.2	10.9
ROCE (%)	15.2	18.2	20.2	21.5	23.8
RONW (%)	17.6	20.1	20.5	21.3	22.6

Source: Company, ICICIdirect.com Research

Rating Matrix

Rating	:	Unrated

YoY Growth (%)

	FY11	FY12E	FY13E	FY14E
Net Sales	22.1	12.0	14.7	13.6
EBITDA	54.3	23.9	16.1	19.8
Net Profit	33.8	19.2	22.6	26.1

Current & target multiple

	FY11	FY12E	FY13E	FY14E
PE	33.2	27.8	22.7	18.0
EV/EBITDA	18.9	15.4	13.2	10.9
Price/BV	6.7	5.7	4.8	4.1

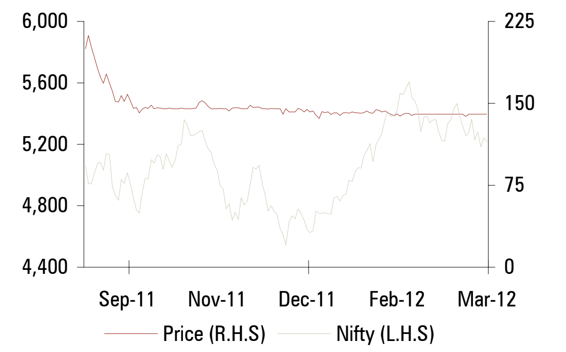
Stock Data

Bloomberg/Reuters code	RUPA IN/ RUCL.BO
Sensex	17,059
Average volume	1,933
Market Capitalisation	₹ 1,119 crore
EV	₹ 1,293 crore
52 week H/L	₹170 / 116
Equity capital	₹ 8.0 crore
Face value	₹ 1
Promoter's stake (%)	74.9

Comparative return matrix (%)

Returns (%)	1m	3m	6m	12m
Page Industries	6.9	10.3	4.7	67.2
Lovable Lingerie	(9.3)	11.3	(24.6)	38.8
Rupa & Company	-	(2.0)	(7.7)	NA

Price movement



Analyst's name

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Dhvani Modi
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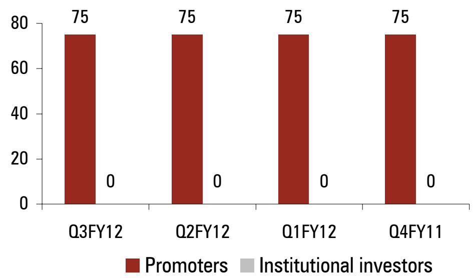
Share holding pattern (Q3FY12)

Shareholder	Holding (%)
Promoters	74.9
Institutional Investors	0.0
General Public	25.1

FII & DII holding trend (%)



Company background

Rupa & Company was incorporated in 1985 by the Agarwala brothers. The company has a comprehensive portfolio of product offerings in the knitted innerwear, casual wear and thermal wear segment for men, women and kids. Over the last six years, the company has consistently received the 'Limca Book of Records' for being the largest knitted wear company in India. Rupa has a large number of stock keeping units (SKUs), each of them for a particular brand, segment, colour and size catering to customers of all age groups.

Over the years, the company has created over 10 sub-brands catering to various socio-economic classes. Rupa owns a bouquet of leading knitted innerwear and intimate wear brands with flagship brands like Rupa, Frontline, Jon, Air, Macroman, Macroman M series, Euro, Bumchums and Thermocot. The company caters to all segments across distinct product categories covering the low, economy, medium, premium and super-premium categories.

Its product offerings include vests, briefs, drawers, brassieres, panties, slips/camisoles and bloomers in the knitted wear segment. Its casual wear product portfolio comprises T-shirts, shorts, bermudas, capris, loungers, night sets and track suits. In the thermal wear segment, the products include both thermal innerwear and outer wear.

The company primarily focuses on creating brands and has adopted an asset-light business model by largely outsourcing the production of its knitted products. It has a network of over 750 independent job work firms. Of these, ~80% have been manufacturing products for the company for the last 15 years. The company has a dyeing and bleaching facility at Domjur, West Bengal to dye products meant for its premium and super-premium brands. The unit has a total bleaching and dyeing capacity of 30 tonnes per day (5 tonnes for yarn dyeing and 25 tonnes of fabric dyeing per day).

The company follows the traditional style of distributing its products. It has a network of over 950 dealers and distributors who supply their products to over 1,00,000 retail outlets across the length and breadth of the country.

Exhibit 85: Key milestones

Year	Milestone
1979	Promoters commenced business as Binod Hosiery, which lauched the Rupa brand
1985	Established Rupa & Co Pvt Ltd
1995	Took over the business of Binod and converted it into a Public Limited Company
1996	Initial public offer & listing on CSE and JSE
1997	Commenced manufacturing of casual wear
1999-2000	Set up a dyeing unit at Domjur. Also started manufacture of thermal wear
2003	Acquired the brand Euro and started exports of products
2005	Launched premium brand Macroman
2006	Doubled dyeing capacity at Domjur
2010	Further doubled dyeing capacity at Domjur
2010	Launched another premium brand Air
2011	Launched apparel for kids under the brand Imoogi

Source: Company, ICICIdirect.com Research

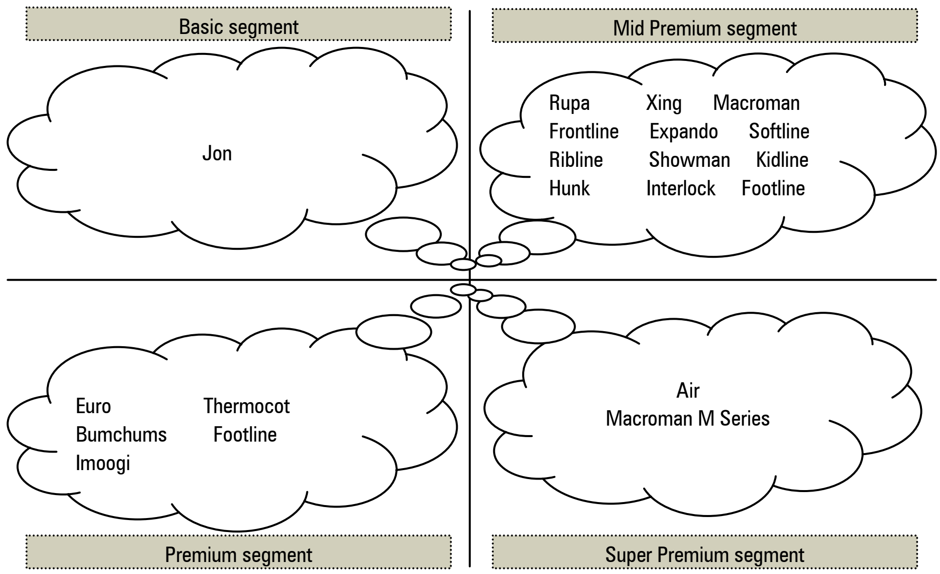
Rupa has created a diversified portfolio of brands to cater to various ages and socio-economic strata of the society

Investment Rationale

Self created and owned brand portfolio to cater to all segments

Over the years, Rupa has created, nurtured and extended many brands in its portfolio. Apart from flagship brands like Rupa and Euro, the company has created various brands to differentiate each product offering from the other. Not only does this branding exercise create a difference between the product and the gender it caters to but it also clearly demarcates brands catering to various socio-economic sections of the society.

Exhibit 86: Diversified product portfolio



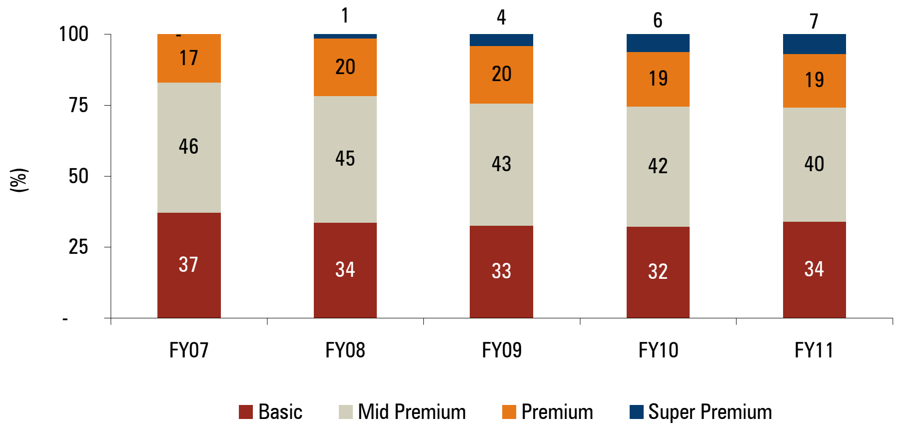
Source: Company, ICICIdirect.com Research

Today, Rupa manages a portfolio of over 2000 stock keeping units (SKUs) comprising different products ranging from men and women innerwear to casual wear to thermal wear.

A higher share of premium and super-premium products has led to an operating margin expansion of 240 bps during FY07-11. Going forward, with higher share of premium and super-premium products in the sales mix we expect operating margins to increase by another 190 bps to 12.5% by FY14E

Focus on premium and super-premium category to aid margin expansion

Exhibit 87: Increasing share of premium and super-premium brands



Source: Company, ICICIdirect.com Research

The share of premium and super-premium in Rupa's total turnover has been on the rise in the last few years. The share of premium and super-premium products has increased from 17% in FY07 to 26% in FY11. Consequently, the company's operating margin has improved from 8.2% in FY07 to 10.6% in FY11. Going forward, we expect operating margins to improve to 12.5% by FY14E on the back of higher share of premium and super-premium products in the total sales portfolio.

Expanding retail presence to enable topline growth

Rupa's topline has grown at a CAGR of 22.1% during FY08-11. Going forward, the company plans to expand its retail presence to further aid growth. Rupa has opened two outlets in Pune and Ranchi as a pilot project. The company plans to gradually increase its retail presence, going forward. Rupa plans to add these stores on a franchising model, whereby the inventory will not be held on the company's books.

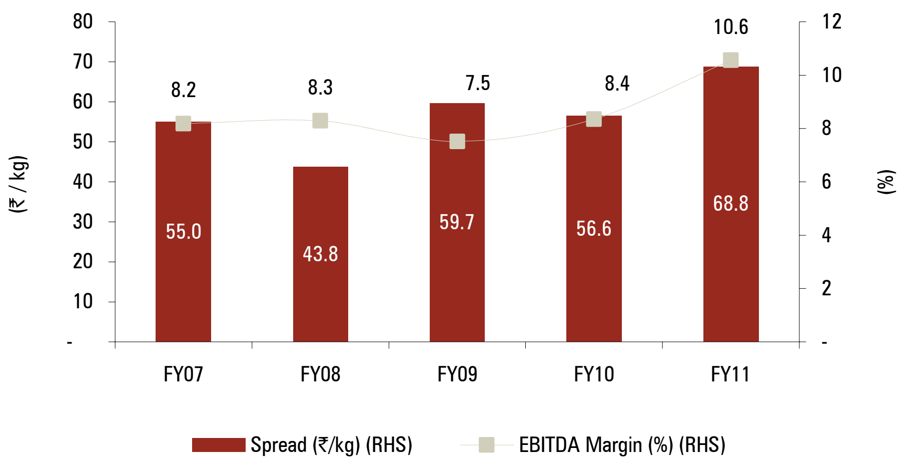
Risk & concerns

Any adverse movement in cotton prices

Cotton and cotton related products account for 60% of the company's raw material costs. Any adverse movement in cotton prices can impact the profitability of the company

Over 60% of the company's raw material costs are related to cotton and cotton yarn. A fluctuation in spreads between cotton and cotton yarn weighs on the operating efficiency of the company.

Exhibit 88: Cotton and cotton yarn spread and impact on operating margin



Source: Company, ICICIdirect.com Research

Labour intensive nature of industry

Textile being a labour intensive business is highly dependent on the availability of manpower for an uninterrupted performance of the business

The textile sector is a highly labour intensive sector. Availability of skilled labour is always a key concern. The company operates from eastern India where labour issues are anyway the highest. Any problem on the labour front can affect the smooth functioning of the business.

Low acceptance of premium and super-premium products

Rupa has always been perceived as a mass market brand. Though the company has been making efforts to increase the share of premium and super-premium products in its sales mix, a lower acceptance of the company's products due to preconceived notions of customers can be a deterrent to the company's growth plans.

Economic slowdown to affect demand

Any slowdown in the economy for an extended period will affect the financial performance of the company

The Indian consumption story has evolved and emerged as an attractive opportunity due to high economic growth. The improving demographics of the Indian economy are also a function of robust economic growth. Any slowdown (long lasting) in the economy will lead to lower discretionary spending and will, thereby, impact the financial performance of the company.

Brand loyalty

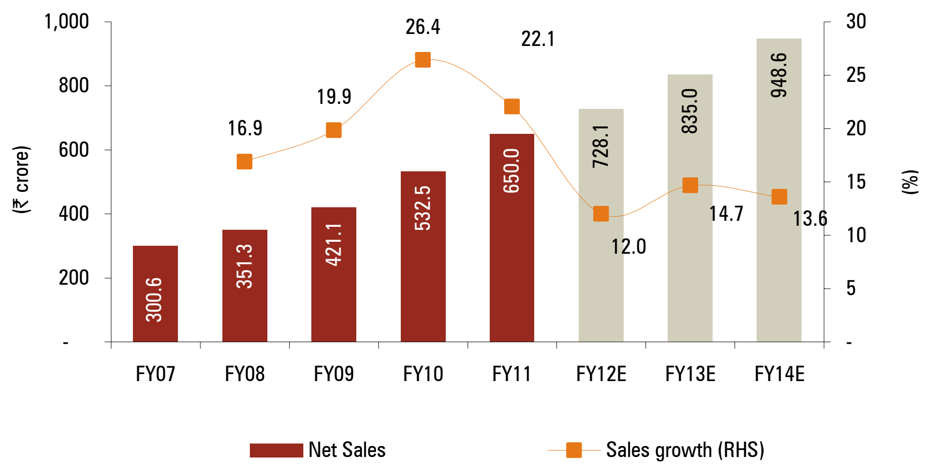
A large number of choices (brands) have led to lower consumer stickiness

Today, a host of domestic and international players are flocking to the Indian markets on the back of optimism in the Indian consumption story. Since consumers have a lot of variety to pick and chose from, customer stickiness is typically low. With the human tendency to try new products or buy any brand that offers a discount, the brand loyalty is considerably low in this industry. If more and more consumers switch products very easily that is likely to lead to a loss of market share.

Financials

Sales to grow at CAGR of 13.4% during FY11-14E

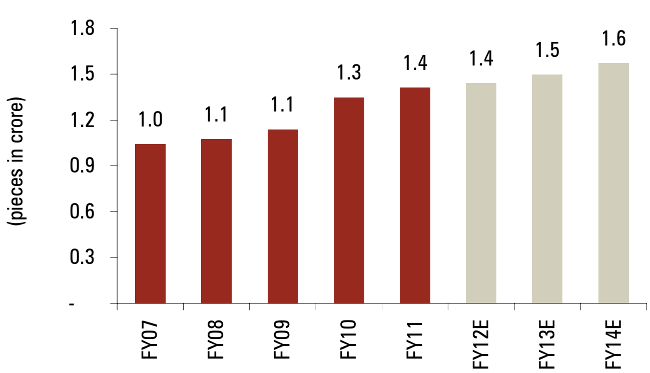
Exhibit 89: Topline expected to grow at CAGR of 13.4% during FY11-14E…



Source: Company, ICICIdirect.com Research

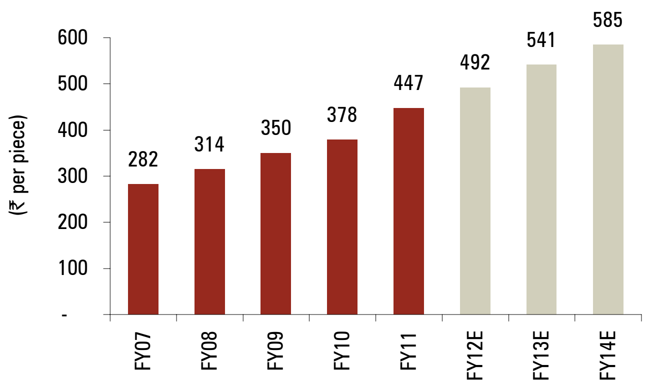
We expect revenues to increase at a CAGR of 13.4% during FY11-14E, after having grown at 21.3% during FY07-11. We expect revenues to touch ₹ 948.6 crore on the back of improved realisations due to an improving product mix.

Exhibit 90: While volumes are likely to remain flat...



Source: Company, ICICIdirect.com Research

Exhibit 91: …realisations are expected to improve



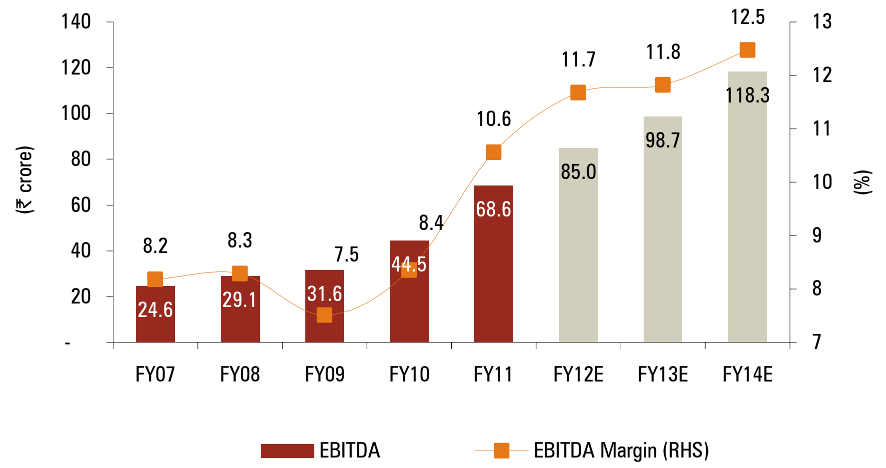
Source: Company, ICICIdirect.com Research

While volumes are expected to remain flat during FY11-14E, we expect realisations to improve at a CAGR of 9.3% during FY11-14E. Consequently, we expect volumes to increase from 1.41 crore pieces in FY11 to 1.57 crore pieces in FY14E. We expect realisations to increase from ₹ 447/piece in FY11 to ₹ 585/piece in FY14E. The launch of more products in the premium and super-premium segments is likely to aid realisation growth.

Over the last few years, Rupa has witnessed an expansion in the operating margin. This has primarily been possible due to the launch of more products in the premium and super-premium category

EBITDA margin set to improve

Exhibit 92: EBITDA margin trend



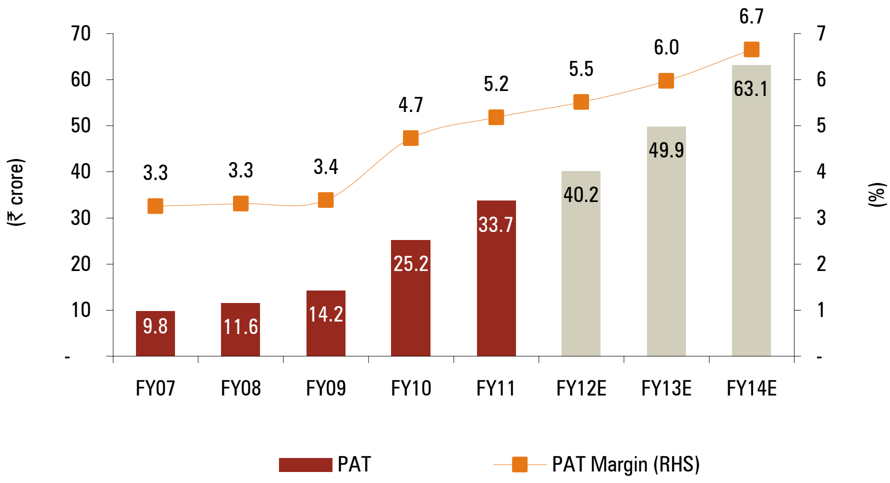
Source: Company, ICICIdirect.com Research

We expect the company's EBITDA margin to improve from current levels on the back of stabilisation in raw material prices. This would also be more so on account of the company's increased focus on increasing the share of premium and super-premium products. Consequently, we expect the operating margin to improve from 10.6% in FY11 to 12.5% in FY14E.

The PAT is likely to double from ₹ 33.7 crore in FY11 to ₹ 63.1 crore in FY14E on the back of an enhanced operational performance

PAT to grow at CAGR of 23.3% during FY11-14E

Exhibit 93: Net profit trend



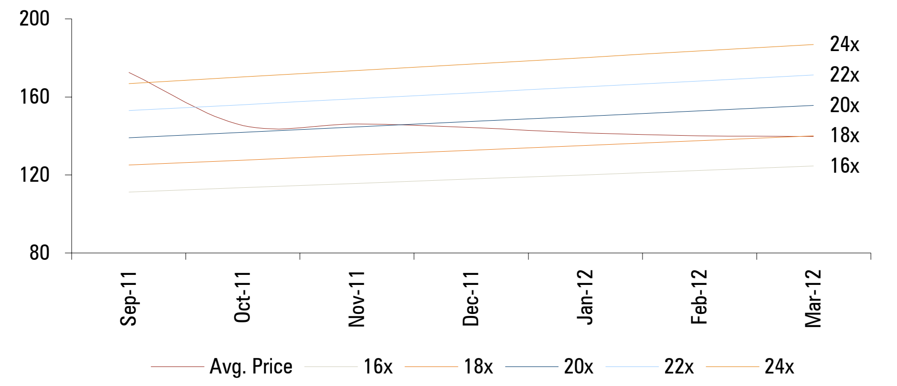
Source: Company, ICICIdirect.com Research

After growing at a CAGR of 36.3% during FY07-11 (led by operating margin expansion), we expect Rupa's PAT to grow at a CAGR of 23.3% during FY11-14E. The launch of premium and sub-premium category products will aid this growth. We expect the profit after taxes to rise from ₹ 33.7 crore in FY11 to ₹ 63.1 crore in FY14E.

The stock was earlier listed on the Calcutta Stock Exchange and Jaipur Stock Exchange. It was listed on the BSE and NSE in September 2011. Due to the same a historical data on the prices is unavailable

Valuation

Exhibit 94: One year forward P/E band chart



Source: Company, ICICIdirect.com Research

At the CMP, the stock is trading at 22.7x and 18.0x FY13E and FY14E EPS of ₹ 6.3 and ₹ 7.9, respectively. Considering the growth potential in earnings due to the retail expansion and improving financials, the stock is trading in line with its peers in this segment.

Financial Tables

Exhibit 95: Profit & loss account

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	421.1	532.5	650.0	728.1	835.0	948.6
% Growth	19.9	26.4	22.1	12.0	14.7	13.6
Other Income	1.7	3.4	1.3	1.8	2.2	2.6
Raw Materials	203.3	254.9	302.1	345.8	391.4	445.8
Manufacturing Expenses	86.7	116.1	134.5	143.8	162.8	180.2
Employee Expenses	2.6	3.3	4.9	5.7	6.7	7.9
Sell. & Admin. Expenses	96.8	113.7	139.9	147.8	175.3	196.4
Total Exp.	389.5	488.0	581.4	643.1	736.3	830.3
% Growth	20.9	25.3	19.1	10.6	14.5	12.8
Operating Profit	31.6	44.5	68.6	85.0	98.7	118.3
Depreciation	3.1	3.6	4.7	6.2	7.8	9.6
Interest expense	8.0	5.8	14.8	20.4	19.2	18.1
PBT	22.2	38.5	50.5	60.2	73.8	93.1
Tax	7.9	13.3	16.8	20.1	24.6	31.0
Prior Period Items	-	-	-	-	-	-
Net Profit	14.2	25.2	33.7	40.2	49.3	62.1
% Growth	22.6	76.8	33.8	19.2	22.6	26.1
Equity	8.0	8.0	8.0	8.0	8.0	8.0
Dividend %	49.9	64.9	99.9	126.1	154.6	195.0
EPS	1.8	3.2	4.2	5.0	6.2	7.8

Source: Company, ICICIdirect.com Research

Exhibit 96: Balance sheet

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	8.0	8.0	8.0	8.0	8.0	8.0
Reserves & Surplus.	115.5	135.3	159.7	188.2	223.0	266.9
Secured Loans	47.9	124.8	184.0	194.3	192.0	181.5
Unsecured Loans	3.3	-	-	-	-	-
Deferrred Tax	6.6	7.1	11.4	12.1	13.2	14.7
Total Liabilities	181.2	275.2	363.1	402.6	436.2	471.1
Net Block	51.6	59.5	108.6	114.9	122.5	128.0
CWIP	5.5	28.8	4.0	4.7	6.1	2.4
Investments	5.1	6.0	0.0	1.3	1.5	7.6
Inventories	64.8	127.7	235.6	243.4	253.9	278.1
Sundry Debtors	73.5	104.3	102.2	119.7	139.5	150.7
Cash & Bank	4.9	6.9	7.4	4.9	7.6	7.4
Loans & Adv.	31.5	25.6	22.7	27.3	31.7	35.1
Current Assets	174.7	264.6	368.0	395.3	432.9	471.3
CL & Prov.	55.7	83.8	117.5	113.5	126.7	138.2
Net Current Assets	119.0	180.8	250.4	281.8	306.2	333.1
Total Assets	181.2	275.2	363.1	402.6	436.2	471.1

Source: Company, ICICIdirect.com Research

Exhibit 97: Cash flow statement

(₹ crore)	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net Profit Before Tax	22.1	38.5	50.5	60.2	73.8	93.1
Depreciation	3.1	3.6	4.7	6.2	7.8	9.6
Interest Expense	7.6	5.3	13.6	20.4	19.2	18.1
Direct Tax Paid	(6.1)	(11.6)	(14.2)	(20.1)	(24.6)	(31.0)
Interest / Dividend Income	(1.3)	(3.0)	(1.0)	(1.8)	(2.2)	(2.6)
Other Non Cash (Inc)/Exp	0.4	0.3	0.3	-	-	-
CF before change in WC	25.9	33.1	53.9	65.0	74.1	87.3
Inc./Dec. in WC	(5.4)	(58.8)	(71.3)	(40.6)	(27.9)	(36.0)
CF from operations	20.4	(25.8)	(17.4)	24.4	46.2	51.3
Pur. of Fix Assets (net)	(13.3)	(34.9)	(29.0)	(11.9)	(16.8)	(11.5)
Purchase of Investments (net)	(5.0)	(0.9)	6.0	(1.2)	(0.3)	(6.1)
Income from Inv	1.0	3.4	0.8	-	-	-
CF from Investing	(17.3)	(32.4)	(22.2)	(13.2)	(17.0)	(17.6)
Inc./(Dec.) in Debt	(60.0)	70.2	59.2	10.4	(2.3)	(10.5)
Inc./(Dec.) in Net worth	67.5	-	-	-	-	-
Others	(9.1)	(9.9)	(19.1)	(24.1)	(24.2)	(23.4)
CF from Financing	(1.6)	60.3	40.1	(13.7)	(26.5)	(33.9)
Opening Cash balance	3.3	4.9	6.9	7.4	4.9	7.6
Closing Cash balance	4.9	6.9	7.4	4.9	7.6	7.4

Source: Company, ICICIdirect.com Research

Exhibit 98: Key ratios

	FY09	FY10	FY11	FY12E	FY13E	FY14E
Expenditure Break-up (%)						
Raw Material Expenses	52.2	52.2	52.0	53.8	53.2	53.7
Manufacturing Expenses	22.3	23.8	23.1	22.4	22.1	21.7
Personnel Expenses	0.7	0.7	0.8	0.9	0.9	0.9
Profitability Ratios (%)						
EBITDA Margin	7.5	8.4	10.6	11.7	11.8	12.5
PAT Margin	3.4	4.7	5.2	5.5	5.9	6.5
Per Share Data (₹)						
Revenue per share	52.9	66.9	81.6	91.4	104.9	119.1
EBITDA per share	4.0	5.6	8.6	10.7	12.4	14.9
EV per share	146.3	155.3	162.7	164.3	163.7	162.4
Book Value per share	15.5	18.0	21.1	24.6	29.0	34.5
Cash per share	0.6	0.9	0.9	0.6	1.0	0.9
EPS	1.8	3.2	4.2	5.0	6.2	7.8
Cash EPS	2.2	3.6	4.8	5.8	7.2	9.0
DPS	-	-	1.0	1.3	1.5	1.9
Return Ratios (%)						
RoNW	11.5	17.6	20.1	20.5	21.3	22.6
RoCE	16.3	15.2	18.2	20.2	21.5	23.8
RoIC	8.6	9.9	9.8	10.5	11.9	14.1
Financial Health Ratios						
Operating Cash flow (₹ crore)	32.0	44.7	68.1	85.0	98.7	118.3
Free Cash flow (₹ crore)	2.7	(63.3)	(53.0)	6.3	23.8	34.7
Capital Employed (₹ crore)	174.6	268.0	351.7	390.5	423.0	456.4
Debt to Equity (x)	0.4	0.9	1.1	1.0	0.8	0.7
Debt to Capital Employed (x)	0.3	0.5	0.5	0.5	0.5	0.4
Interest Coverage (x)	3.5	7.0	4.3	3.9	4.7	6.0
Debt to EBITDA (x)	1.6	2.8	2.7	2.3	1.9	1.5

Source: Company, ICICIdirect.com Research

Exhibit 99: Key ratios

DuPont Analysis (x)	FY09	FY10	FY11	FY12E	FY13E	FY14E
PAT / PBT	0.6	0.7	0.7	0.7	0.7	0.7
PBT / EBIT	0.8	0.9	0.8	0.8	0.8	0.9
EBIT / Net Sales	0.1	0.1	0.1	0.1	0.1	0.1
Net Sales / Total Assets	2.3	1.9	1.8	1.8	1.9	2.0
Total Assets / Networth	1.5	1.9	2.2	2.1	1.9	1.7
(YoY Growth %)						
Net Sales	19.9	26.4	22.1	12.0	14.7	13.6
EBITDA	8.5	40.7	54.3	23.9	16.1	19.8
Net Profit	22.6	76.8	33.8	19.2	22.6	26.1
Turnover Ratios						
Working Capital / Sales (x)	0.3	0.3	0.4	0.4	0.4	0.3
Inventory turnover (days)	67.5	66.0	102.0	122.0	111.0	107.0
Debtor turnover (days)	55.1	61.0	58.0	60.0	61.0	58.0
Creditor turnover (days)	41.3	33.8	40.5	50.0	48.0	45.0
Current Ratio (x)	3.1	3.2	3.1	3.5	3.4	3.4
Free Cash Flow (₹ crore)						
EBIT (post-tax)	18.3	26.8	42.7	52.6	60.6	72.5
Add: Depreciation	3.1	3.6	4.7	6.2	7.8	9.6
Less: Changes in working capital	5.4	58.8	71.3	40.6	27.9	36.0
Less: Capex	13.3	34.9	29.0	11.9	16.8	11.5
FCF	2.7	(63.3)	(53.0)	6.3	23.8	34.7
Valuation Ratios						
Price to earnings ratio (x)	-	-	33.2	27.8	22.7	18.0
EV / EBITDA (x)	36.9	27.8	18.9	15.4	13.2	10.9
EV / Sales (x)	2.8	2.3	2.0	1.8	1.6	1.4
Dividend Yield (%)	-	-	-	0.7	0.9	1.1
Price / BV (x)	-	-	6.7	5.7	4.8	4.1

Source: Company, ICICIdirect.com Research

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